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# BOOK-KEEPING

*CARISS*



EFFINGHAM WILSON, LONDON.







# BOOK-KEEPING

BY

## DOUBLE ENTRY:

EXPLAINING THE SCIENCE AND TEACHING  
THE ART.

BY

ASTRUP CARISS,

FELLOW OF THE INSTITUTE OF CHARTERED ACCOUNTANTS.

LONDON:

EFFINGHAM WILSON, ROYAL EXCHANGE.

LIVERPOOL: H. YOUNG, 12, SOUTH CASTLE ST.

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## PREFACE.

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*"What the English need most is lucidity."*—MATTHEW ARNOLD.

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THIS is certainly true of Book-keeping; of which it is not too much to assert, on the evidence afforded by existing treatises, and by the utterances of eminent Accountants, that only few understand it sufficiently, as a SCIENCE, to be able to give a clear and logical reason for each operation performed therein.\*

To the extent of that deficiency only unintelligible *forms* are taught; and the learner, through ignorance of governing and guiding principles, is often, in his uncertainty, like a storm-tossed ocean ship, with compass gone, and neither sun nor moon nor star in sight.

Those, on the contrary, who have mastered the fundamental principles with scientific exactness, can scarcely fail to understand whatever accounts are submitted to them; and to render these, through the medium of fitting forms, intelligible to others.

On giving a Course of Lectures on Book-keeping,

\* See my Lecture on the *Forms of Balance Sheets*.



in Queen's College, Liverpool, in 1868, being unable to find any manual fulfilling the requirement I have indicated, I was led to make the following effort to supply that want.

After printing 1,000 copies of pp. 1-128 (which have since reposed on my office shelves), I became inclined to remodel it. The recent debate of the Manchester Accountants on Balance Sheets has induced me to complete the Work.

I venture to claim for it that it stands alone in the completeness of its teaching of the SCIENCE of Book-keeping. Leaving nothing in doubt, it removes finally from the fields of controversy questions (which ought never to have arisen) on which eminent professional writers and practitioners have shown themselves astonishingly in error.

35, CASTLE STREET, LIVERPOOL,  
*May, 1883.*

\* \* \* The forms on page 92 show the sides on which Assets and Liabilities should appear, under the titles there given ; but only form No. 2 ought to be used, as is fully explained in my Lecture on *Forms of Balance Sheets*.

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\*.\* The Author has included in this Work a much more comprehensive summary of the Law of Bills of Exchange and Promissory Notes than is given in any other treatise on Book-keeping. *See* pp. 120 to 137, and 201 to 203.



# Book-keeping by Double Entry.

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## PART I.—THE SCIENCE.

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### SECTION I.

#### *The Object of Book-keeping, and its Requisites, &c.*

The Object of Book-keeping is to exhibit the results of all transactions which are attended with increase or decrease of the property of any individual or company.

For the attainment thereof it is obviously necessary to keep daily records of all such transactions.

It is also necessary to classify them, under suitable heads, according to the affairs to which they belong.

All books used for the former purpose, by whatever names designated, are **Day Books**.

The book used for the latter object is the **Ledger**.

The Ledger is so called,\* because all transactions, after having been recorded *chronologically* in the Day Books, are therein gathered or *collected* into **Accounts**.

An Account is a formal statement, showing, as to persons, the debts ~~between~~ two parties; as to goods, what has been received and given out; and, as to profit and loss, what has been gained and lost.

The results finally shown, on **Balancing** books, are these :—

- 1.—The net value of the owner's property at that time.
- 2.—The increase or decrease that has taken place since the books were opened, or last balanced, and whence it has proceeded.
- 3.—What the property consists of, and where it is.

These are exhibited in the following accounts :—

- 1.—The stock, or capital, or whole property account, shows the owner's worth.
- 2.—The profit and loss account shows the increase or decrease, and the sources thereof.†

\* From *légère*, to take away piece by piece; to collect.

† The profit and loss account ought not to include any accession or diminution of capital, which is not strictly of the nature of loss or gain in business. All other increase or decrease should be entered originally in the stock account, instead of being carried thereto through profit and loss.

- 3.—The balance account, or account of the separate parts, (assets and liabilities,) shows what the property consists of,—*i.e.* the form, quantity, and value of each component part, and where it is.

Useful intermediate results are also obtained, corresponding mainly with those of the balance account, and showing especially what the proprietor owes, and what is owing to him. These need not, however, be more fully referred to in this place.

Now, if the transactions are numerous, there is great danger of error occurring, in recording and classifying them. This is so even in the hands of practised and skilful book-keepers. This fact, and the vital importance, especially to mercantile men, of having ready and accurate knowledge of the state of their affairs, rendered necessary that scientific system of accounts, known as Book-keeping by Double Entry, which was devised centuries ago, and has since become so generally adopted in the commercial world.

---

## SECTION II.

### *The principle of Book-keeping by Double Entry.*

As already stated, Book-keeping by Double Entry is the scientific system of keeping accounts. *It is the only*



*complete system of Book-keeping—the only one worthy of being termed the Art of Book-keeping—the only one deserving of being taught as such.*

It is founded on the axiom that “a whole is equal to the sum of all its parts.”

This principle is carried out by opening two classes of accounts, viz :

- 1.—Accounts of the property **as a whole**.
- 2.—Accounts of the separate **parts** thereof.

The application of this principle will more clearly appear, and be better understood, if the probable origin of the art be considered, and its development traced therefrom.

When the merchant who first perceived its advantage purchased silk, *e.g.*, paying for it in money, he saw that the transaction affected two accounts in his books. First, he turned to the account of his silk, and added thereto the quantity and cost of his newly acquired stock ; and then, next, he turned to the account of his money, and deducted therefrom the amount so paid away for the silk : and thus, as a natural and inherent principle of correct book-keeping, effected a double entry, from perceiving that the purchase of the silk was an act of a twofold nature.

This transaction represents the simplest, and most easily understood form of 'Double Entry.' It is clear that, in so exchanging money for silk, the merchant did not increase his property as a whole. He only changed the form and value of the parts. One of them, silk, was increased, *but at the expense of another—money*. His capital or worth was unaffected thereby. Therefore it was unnecessary to alter his whole property account.

And, in fact, if the merchant had balanced his books at this stage, he would have found the total value of his money and silk equal to that of the stock or capital with which he commenced business, as shown by the **Inventory**, or account thereof, which was then entered in his books — such Inventory being, though in an informal shape, his stock, or capital, or whole property account; and 'silk,' with 'money' or *cash*, the accounts of the **Parts** into which his whole property had, in the course of trade, become divided.

The merchant subsequently received a legacy, paid to him in cash. Now, he again turned to his cash account, and added thereto the amount of the legacy: but this was all he did at that time; for, from not having given anything in exchange for the legacy, it did not occur to him to take any other notice of it in his books. On balancing his books, however, at this stage, he found that the total of his property, as shown by his accounts of cash and silk, was greater than the total thereof,

as shown by his stock or capital account. In other words, the whole was *less* than the sum of its parts.

Aided by memory, he at once knew that the entry of the legacy *once only*, viz., in his cash account, was the cause of the discrepancy; that it ought to have been added to his 'stock,' as well as to his 'cash'; to the whole as well as to the part, in order to preserve the equilibrium, and show the correctness of his books: and thereupon he made the requisite second entry.

And, perceiving therefrom that a double entry should be made, not only where newly acquired property came to him in exchange for property previously belonging to him, as shown in the purchase of the silk, but also when, as in the case of the legacy, no equivalent was given for it out of his property, he deduced the law that *every* transaction should be entered twice in his accounts.

Afterwards the merchant resold his silk, obtaining for it more than it had cost him. This introduces us to a third form of increase of property, viz., that arising from profit in trade. He gave for the silk, we will say, £1,000, and sold it for £1,200. The difference, £200, was so much profit; so much increase of his *whole property*, as well as of that part of it, *cash*, in which he had received payment for the silk.

Once more the merchant turned to his 'silk,' and 'cash' accounts; and now, probably, felt uncertain, at the first, how to proceed. Analysing the transaction he saw one thing clearly, viz: that the cash which had been invested by him in silk, in his first trading operation, had come back to him, and the silk gone from him: and therefore, that whatever else was involved in the transaction, he must increase 'cash' by £1,000 and decrease 'silk' to the same extent. And this he did.

But now he had to deal with the £200, the profit derived from trading in silk. This he treated just as he had treated the legacy, by adding it to his capital, as well as to his cash account.

By these two double entries the merchant arrived at a correct result, *but by an extremely inconvenient process, as compared with the one which science has supplied for that object.*

It belongs, however, to the next section to describe and explain the better mode—the present section being concerned only with the *principle* of double entry, and with illustrations thereof.

The illustrations given show that there are only two fundamental varieties of double entry, viz:

- 1.—Increase of one part, and decrease of another, simultaneously and equally.

- 2.—Either increase of the whole, and of a part, simultaneously and equally; or *decrease* of the whole, and of a part, simultaneously and equally.

All transactions may be resolved into one or other of these two forms. An equal exchange of property belongs to the former class. Receiving a legacy, or giving a donation, belongs to the latter class. Selling at a profit, or selling at a loss, comprises both varieties.

These two forms, therefore, exhibit fully the principle of Book-keeping by Double Entry; all else in the art consisting of arrangements to carry that principle into effect, so as to exhibit the desired results with the greatest facility, clearness, and accuracy.

---

### SECTION III.

#### *Expedients which have received universal adoption.*

One design of this treatise is to distinguish what is essential from that which is expedient; and, again, to separate expedients universally adopted, from mere devices for special requirements.

Those arrangements will now be presented which belong to every system of Book-keeping by Double

Entry; which are only less necessary to the art than the principle from which it receives its name.

## I.

## USING MONEY AS THE REPRESENTATIVE OF PROPERTY.

All are familiar with the one which must be mentioned first, viz., the practice of entering, in books of account, not only the description and quantity of each property, but also the value thereof in money; and in such form as to constitute money the representative of the property.

If a man's property consisted of

A house,  
Furniture,  
400 sheep, and  
500 yards of silk,

Less what he owed for, viz :

40 oxen, and  
10 packs of wool ;

and if no common representative of property were known, it would not be possible to state his wealth collectively ; for his house could not be added to his sheep, nor could oxen be deducted from his silk.

In fact, it is only by means of money that different kinds of property can be compared, as to their value,

with exactness; and added to or subtracted from each other. Without money, neither could the double effect of any transaction be exhibited in books of account; nor could the profit or loss attending any business be ascertained correctly; nor, indeed, could any system of book-keeping have been constructed, capable of fulfilling the requirements of modern commerce.

## 2 AND 3.

GIVING TWO SIDES TO EACH ACCOUNT.

ADDING ON BOTH SIDES.

There are only two modes of exhibiting increase and decrease in accounts.

That of adding or subtracting each transaction, as it occurred, would be used first, as follows, viz.:—

Received gift	..	..	..	..	£2000	0	0
Paid for silk	..	..	..	..	1000	0	0
					<hr/>		
Leaving in hand	..	..	..	..	1000	0	0
Received legacy	..	..	..	..	500	0	0
“ for silk	..	..	..	..	1200	0	0
					<hr/>		
Total	..	..	..	..	2700	0	0
Paid for wine	..	..	..	..	£400	0	0
“ expenses	..	..	..	..	100	0	0
					<hr/>		
					500	0	0
					<hr/>		
Leaving	..	..	..	..	2200	0	0
Received for wine	..	..	..	..	200	0	0
					<hr/>		
Total	..	..	..	..	£2400	0	0
					<hr/> <hr/>		

And was, doubtlessly, soon superseded by the more convenient system now used—that of entering increase on one side of the account,\* and decrease on the contrary side; as shown in the following CASH ACCOUNT.

Received gift of	£2000	0	0	Paid for silk	£1000	0	0
" legacy	500	0	0	" wine	400	0	0
" for silk	1200	0	0	" expenses	100	0	0
" " wine	200	0	0				

and then adding each side, and finding the difference between the lesser† and the greater total.

## 4.

## USING ARTIFICIAL OR FICTITIOUS EQUIVALENTS.

So far, the merchant had been able, by means of practical sense, to devise methods which were true in principle, and true in the results they yielded; but which, nevertheless, proved inadequate, when his business transactions became numerous and complex.

Therefore, when the inconveniences of his own arrangements made themselves felt, he sought the aid of a mathematician: and now science gave to commerce that beautiful and perfect system which it still makes use of. ‡

\* It occurred naturally to enter receipts on the left-hand side, for possessions would be put down first; and then, following the order of writing among Western nations, viz. from left to right—to enter things given out on the right-hand side.

† Used for euphony.

‡ All modern methods which differ from the Italian system, differ only in form, not in principle; they are, in fact, only artistic improvements.



The mathematician was enabled, by his training and studies, to grasp all the conditions to be fulfilled, in framing for the merchant a scheme of accounts; and, perceiving that it was necessary, in order to create a system, to provide a uniform process of conducting all operations of posting and balancing, he first devised an arrangement to accomplish that object.

This he effected through equalizing every entry in the ledger by another one therein, representing the same value. In other words, by so posting the two-fold effect of every transaction as to place the two entries thereof on opposite sides of their respective accounts—on the left-hand side of one account, as increase, and on the right-hand side of another account, as decrease; and using, where necessary, an artificial equivalent.

And this simple but useful expedient proved of further value, through yielding another one, which forms the most striking feature of scientific book-keeping.

## 5.

### DEBITING AND CREDITING.

**Debiting and Crediting**, to which the preceding allusion refers, resulted naturally from the foregoing method of equalizing the ledger; because every account showing increase seemed to be indebted for its increase

to another account showing corresponding decrease; and every account showing decrease seemed to be the creditor of another account showing corresponding increase.

Now there is nothing of greater importance to the learner than to acquire a clear idea of the meaning of Debtor and Creditor, as used in book-keeping, and a thorough knowledge of debiting and crediting: and yet the fact is that this, which should most of all be understood, is least of all explained, in intelligible terms, in treatises on book-keeping.

For which reason the writer has made it one of his chief aims to render this essay free from so serious a defect.

By carefully perusing the following illustrations, showing the mathematician's mode of dealing with the three classes of transactions represented thereby, the student will be enabled to master the subject.

It may be premised that if all transactions were of the first, or even of the second class, debiting and crediting would be an unnecessary and useless process. In adopting it, however, for its utility in connection with transactions of the third class, it became absolutely necessary to extend the arrangement to every transaction.

## FIRST ILLUSTRATION.

First then, the silk which the merchant purchased, paying for it in money, was entered in his ledger, together with its cost, *on the left hand side of the silk a/c.*, and the thing given out for it, money, *on the right hand side of the cash a/c.*, both entries being, in effect, as follows,—

## MY SILK ACCOUNT.

I have recd.	yds.	
of silk and paid		
for it.	£1000	0 0

## MY CASH ACCOUNT.

I have paid for silk	£1000	0 0
----------------------	-------	-----

But in the following form, viz :

DR.	SILK.	CR.
To Cash .. ..	£1000 0 0	

DR.	CASH.	CR.
	By Silk .. ..	£1000 0 0

‘Silk Dr. to Cash’ meaning that the merchant was indebted to his cash, or stood in the relation of *debtor to cash*, in his silk a/c., for the silk he had become possessed of in exchange for cash ; and ‘Cash Cr. by

Silk' meaning that he stood in the relation of *creditor*, in his cash a/c., through having given out cash for silk.

In technical language, silk was debited with the value it had cost in cash, and cash was credited with the value it had produced in silk.

By comparing the mathematician's with the merchant's method of dealing with the foregoing transaction, it will be seen that the two are alike in their most important feature, viz. in increasing silk, and decreasing cash, simultaneously and equally; and that they differ only in the form of debiting and crediting, introduced by the mathematician, and already described, whereby silk is represented as being debtor to cash, and cash, (as a logical consequence,) as the creditor of silk.

The feature above mentioned as being common to both methods requires no further explanation, for it is the simplest and most obvious mode of showing the effect of all transactions which, like the one under review, consist of equal exchange, leaving the owner neither richer nor poorer, neither increasing nor diminishing his capital, and not requiring any entry in his stock account.

And, as to the mathematician's arrangement of the transactions in the form of *debts* and *credits*, it is not necessary to say more here; for its utility is greatest, and

will become most apparent, in connection with transactions which have yet to be noticed.

#### SECOND ILLUSTRATION.

As to the legacy, it has been shown that the merchant added it to 'stock' as well as 'cash'; and that he dealt in the same way with everything which increased his property as a whole. By this method, it will be perceived, he doubled his property, *in his books*. He was not, however, deceived thereby, as to his true position, for he had not set up 'stock' as an account of property in excess of what was comprised in his 'cash' and 'silk' accounts, but only as a check on these, and as a collective statement of his worth. He knew, therefore, that 'stock' was only a *nominal* or *fictitious* account, his actual property being fully accounted for in his cash and silk accounts. But it served his purpose, as a check on his other accounts, and he saw no objection to it.

But, although the merchant's method was true in principle, and correct in result, still it was inadmissible, *in his form of using it*, into the scientific system of accounts which was constructed for him by the mathematician.

For the mathematician's system not only required that every transaction should be entered twice, but also that every entry on one side of any account, should be equalized by another entry, of equal value, *on the*

*contrary side of some other account*; that every entry showing increase should be equalized by another entry showing decrease; that every entry making an account debtor, should be balanced by an entry making another account creditor; that, in short, there should be for every debit, a credit; and for every credit, a debit.

This was carried into effect, in the case of the silk which the merchant purchased for £1,000, by increasing the silk account on its left hand side, and there showing the value thereof, viz., £1,000; and then decreasing 'cash,' on its right hand side, to the same extent.

There, the course to be taken was simple enough; but, with respect to the legacy, while it was obvious that 'cash' must be increased, it did not so clearly appear which account should be decreased.

The mathematician, however, it will be seen, had no difficulty with it.

It was absolutely necessary, for the harmony and perfection of his system, that every entry of actual property, on the left hand side of the books, should be equalized by a counter entry on the right hand side. Now the receiver of the legacy, viz. 'cash,' (meaning the cashier, or the merchant in his cash account,) was manifestly the person, or account, to be debited with, or made debtor for, the amount of the legacy. It was equally clear that the giver of the legacy was not a creditor in

the matter, and could not be made to appear as such, without converting the legacy into a loan.\* But some person, or account, had to be credited with it, in order that the above debit might be equalized by a credit; and therefore, since the donor of property so acquired by gift could not appear in the books as a creditor in respect thereof, it was necessary to create a substitute, to appear there in that capacity. It was also necessary that 'stock' should be increased by the amount of the legacy, in order that the whole might be equal to the sum of all its parts.

For these reasons the mathematician preserved the merchant's fictitious account—stock; but, by a simple, yet most important, and masterly arrangement, completely changed its aspect, in one particular; thereby harmonizing it with his scheme, making it fulfil the above requirements, and rendering it subservient also for other useful purposes.

This he accomplished by entering increase of whole property on the *right hand side* of the stock account; making stock appear, not as the receiver of property which, like the legacy, was added to the whole property, and to one of its parts, simultaneously and equally, but as the distributor thereof to the several accounts which had actually become increased by such newly acquired property.

\* Of course the meaning is that neither a living donor, nor the representatives of any deceased donor, could be so credited.

The student will now clearly see why it is that all increase of actual property appears on the *left hand side*, and all increase of fictitious property, on the *right hand side*, the latter being introduced only as equalizing entries, as the following accounts show, viz :

DR.		STOCK.		CR.
		By Cash .. .. .	1000 0 0	
		" (legacy)	500 0 0	
DR.		CASH.		CR.
To Stock .. .. .	1000 0 0	By Silk .. .	1000 0 0	
" (legacy)	500 0 0			
DR.		SILK.		CR.
To Cash .. .. .	1000 0 0			

It may be useful to review them.

1. As the merchant's property consisted, originally, of £1,000, in cash, a cash account was opened, showing, on its left hand side, that he possessed that amount of cash. At the same time another account was opened, viz., stock, not, however, as a property account, but solely because it had been determined, for reasons which have been explained, to enter, on the right hand side of the ledger, an equivalent for everything which appeared in the ledger on its left hand side ; and stock was the only account in which the £1,000 could properly be so entered.



2. The merchant next parted with all his cash, receiving silk in its stead. In this case it was not necessary to use any *artificial* equivalent, because actual decrease of cash, as exhibited on the right hand side of the cash account, was naturally equalized by actual increase of property, as shown on the left hand side of a new account, viz., silk. The merchant's property was still worth £1,000, as shown in the stock account, but it no longer consisted, *as therein stated*, of cash—silk having taken the place of cash.

3. The merchant next received a legacy, the amount whereof having been entered in the cash account, it was again necessary to enter an artificial equivalent in the stock account.

Now, if the foregoing accounts were all real accounts, or accounts of real\* property—*i.e.*, assets and liabilities; and if they were balanced at this stage, *they would show the merchant as being posse sed of absolutely nothing*; for the £1,500 appearing as his property in the cash and silk accounts, would be annihilated by a liability, to that extent, which, in that case, the stock account would mean, (if it could mean any anything at all), that the merchant had incurred *to some person bearing the name of Stock*.

And now it can hardly be necessary to say more, to prove the purely artificial origin of the stock account,

\* This is used here according to its technical meaning in book-keeping, which differs from its technical meaning at law.

and of all sub-divisions thereof; and the fitness of designating them *nominal* or *fictitious* accounts.\*

### THIRD ILLUSTRATION.

As to the third transaction, in consequence of £1,200 having been received for silk, cash was increased to that extent, and silk *seemingly* decreased to like extent—cash being debited, and silk credited with £1,200, in the following form, as in blacker type, viz.:—

DR.				CASH.				CR.			
To Stock	..	£1000	0 0					By Silk	..	£1000	0 0
	..	500	0 0								
To Silk	..	1200	0 0								

DR.				SILK.				CR.			
To Cash	...	£1000	0 0					By Cash	..	£1200	0 0

\* One of the ablest and clearest writers on book-keeping, Cronhelm, whose graceful diction, excelling in purity and force, aided by his complete mastery of the subject, has clothed even book-keeping with attraction; and, subsequently, one of the most eminent mathematicians, and versatile geniuses, of this or any age, De Morgan, in the remarkable chapter on book-keeping contained in his arithmetic, have both objected to the stock and profit and loss accounts being termed fictitious.

With knowledge thereof, it is not without having carefully considered the subject that the present writer puts forward views in opposition to those of the high authorities above referred to: but, believing that his conclusions are sound, and regarding it as important to maintain the distinction between real and fictitious accounts, because of its bearing upon a clear understanding of first principles being arrived at by students, the author ventures to submit his deductions to such examination as any one may be disposed to bestow upon them, and to such criticism as there may seem to be room for.

It would be interesting if the origin could be traced of employing the term fictitious in the foregoing sense. It is now rarely used, but seems to have survived the reasons which caused its adoption.

But, although the latter entry is, *in its form*, as if silk had been decreased to an extent represented by £1,200, yet, in fact, it had not been reduced so much; for it had only cost £1,000, and nothing had been added to it as improved value. Therefore it could not really be diminished, on the credit side, by more than the amount standing as its representative on the debit side, viz., £1,000.

*But the account could be credited with £1,200, because the silk had produced that value.*

In so crediting it, however, with that amount, it is necessary, for a full understanding of the matter, to know, as to £200, part thereof, what it represents.

If, for that object, the corresponding entry, on the debit side of the cash account, be analysed, it will be found to consist, first, of the £1,000 which the merchant, on buying the silk, had paid for it, and which, on his selling that article, had come back to him; and next, of £200 more, his profit on the latter transaction.

Now, since his profit was in cash, and not in silk, and was duly accounted for, as such, in his cash account, it is manifest that £200, part of the £1,200 entered on the credit side of the silk account, was certainly not so

entered there as the profit on the sale of the silk, nor as representing any property.

This is again obvious on considering that all the silk had been parted with, a fact which made it absolutely impossible that there could remain in the account any property at all; conclusively proving the artificial origin, and fictitious nature, of the seeming surplus of £200, shown on its credit side.

Since, therefore, this £200 represents neither property received, nor property given out, it follows that it was included in the above-mentioned credit for some other purpose; and the next step in this enquiry must be to discover that object.

Now the profit on the sale of the silk was—as all profit is, in its nature,—like the legacy, in consisting of property received by the merchant in excess of, not in exchange for what he previously possessed: therefore, like the legacy, it had to be added to stock, and on the credit side of stock, in order to maintain the equilibrium of the books, and the equality of the whole with the sum of all its parts.

And it was really with that object in view, as an ultimate result, that the silk account was credited with an equivalent of the aforesaid amount of profit; but, for an intermediate object, instead of dealing with the transac-

tion, as the merchant had done, in first increasing cash and decreasing silk to the extent of £1,000, and then increasing cash and stock to the extent of £200, the much more convenient, though perhaps less readily understood process was adopted, of making one instead of two double entries of the transaction, by at once debiting cash and crediting silk with £1,200.

By means thereof the credit in question, viz., £200, which was destined to appear, ultimately, in stock, and which, on balancing, must inevitably be transferred to stock, was lodged, temporarily, in the silk account.

It was so entered there, as part of the £1,200, because, in the first place, that was the most direct and most convenient mode of equalizing the debit in the cash account—neither calling for the thought, nor requiring the time, to analyse and post the transaction, which would have been necessary for the purpose of entering separately the component parts of the said credit.

For, although, in the foregoing illustration, nothing could be easier than to separate, in that way, profit from cost price, yet, in some cases, it would be both laborious and difficult to do so; and the result, when accomplished, would yield no advantage.

But the plan of crediting the property account with the profit, as well as with repayment of the cost of the

article, as illustrated in the transaction under notice, besides being the simplest and readiest process, both for equalizing the debit, and for attaining the remoter object, is altogether free from any difficulty in any of its applications.

At the same time, it is valuable for other purposes, and, especially, for saving time in a manner now to be pointed out.

For, by reason of profit being credited, as above mentioned, in accounts of property producing profit, it follows, in the case of any article in which the transactions are numerous, that the total profit of all the transactions therein credited with profit, or of all which have arisen since the last balancing, however numerous they may be, can be transferred therefrom to stock in one sum, by means of a single debit entry in the account of the particular property producing the profit, and another single equalizing credit entry in the stock account.

And, since loss is debited, in a similar manner, or comes out on the debit side, in accounts of property, the total loss on numerous transactions resulting in loss, or the surplus of profits over losses, or of losses over gains, in accounts comprising mixed results, can likewise be transferred to stock in one sum; to the debit of

stock, when the result shows loss ; to its credit when the result is profit.

Now, in thus vicariously debiting or crediting any property account with profit or loss, there is no danger of its being left in such account, or of error arising from its being temporarily lodged there ; for, on balancing, in the case given, *e.g.*, the silk account would show a credit surplus not really belonging thereto ; and the stock account an equal deficiency, as compared with the total of the property comprised in the real property accounts.

In other words it would then appear that silk had been sold for more than its cost ; that the profit had been added to cash ; that its equivalent, as a convenient process, and for other purposes, had been entered on the credit side of the silk account ; that it really belonged to the credit of stock ; and therefore that it must be so transferred to stock.

It may be useful to point out here, although it is not necessary to do so as explanation of the principle, what would have been the effect, and the course taken, if any portion of the silk had remained unsold.

If, after selling part for £1,200, there had remained on hand other part, which had cost £100, then the account, after having been credited with £1,200, would

also have been credited with £100, because the silk on hand, although it had not produced that value, yet possessed it.

At the same time a new account, called balance account, would have been debited with the value of the balance of the silk on hand ; or else this balance would have been entered on the debit side of a new statement of the silk account.

The transaction would then have shown a surplus of £300 to be transferred from the credit of silk to the credit of stock—the profit consisting of £200 in cash, and £100 in silk.

But if all the silk had been sold, and, *e.g.*, for £800, then cash would have been debited, and silk credited with £800 ; and, on balancing, a surplus would have appeared on the debit side of the account, as if £200 worth of silk had remained on hand.

From the fact, however, of all the silk having been parted with, it is manifest that such surplus would have been only fictitious ; or nothing more than the measure of the loss which had been sustained by selling silk for £200 less than it had cost ; and that it must therefore be transferred from the debit side of silk to the debit side of stock, to show, in this latter place, that the merchant's worth had been diminished to that extent.



The foregoing explanations have been given at great length, and with much repetition. It will, therefore, not be surprising, if some have begun to regard the author's treatment of the subject as very tiresome. In being so elaborate, however, he has been governed by a strong desire to make his meaning plain, even to the meanest capacity; with which object he ventures to give the following

SUMMARY :—

1.—In Book-keeping by Double Entry, the property owned at any date, being twice entered, is doubled \* in the Ledger.

2.—This arises from carrying on two sets of accounts, viz:—1, of the property as a whole; and, 2, of its separate parts.

3.—One of these sets comprises *real*, and the other *fictitious* property.

4.—Real property is contained in the accounts of the separate parts, as in wine, tea, sugar, houses, money, debts receivable, debts payable,† and similar accounts, named **Real Accounts**.‡

\* It may be contended that it is cancelled. In either case the argument is the same.

† As property parted with, or agreed to be parted with. Debts arise, and appear first, in *personal* accounts.

‡ From *Res* or thing.

5.—Whatever is entered in the stock and profit and loss accounts consists only of artificial equivalents of the property comprised in the real accounts. Therefore the stock and profit and loss accounts are termed **Fictitious or Nominal**.

6.—Real accounts exhibit increase on their left-hand side, and decrease on their right hand side; and are, therefore, receiving accounts on the former side, and expending accounts on the latter side.

7.—Increase is represented by means of money.\* This is so whether money has been paid for the property received or not. The property actually paid for it is also shown. For example

DR.	SILK.
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To Wine	£400   0   0
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exhibits increase of silk to an extent represented by £400. It also shows that wine, not cash, was expended to pay for it.

7.—Decrease is represented by means of money. This is so whether money has been received for the property given out or not. The property actually received is also shown. For example

\* Sometimes *quantities*, as well as value, are stated in the Ledger but not necessarily so.

WINE.

CR.

| By Silk ... £400 0 0

exhibits decrease of wine to an extent represented by £400. It also shows that silk, not cash, was the property received in exchange for it.

8.—All accounts are divided into **Debtors** and **Creditors**.

9.—Entering an account as debtor is called **Debiting** and as creditor, **Crediting**.

10.—Debiting entries are called **Debits**, and crediting entries **Credits**.

11.—Debits appear on the left hand side, and credits on the right hand side.

12.—Receiving accounts are debtors, and expending accounts creditors.

13.—Receiving accounts are debited with the cost or value of property received ; *i.e.*, with original cost, with all expenses subsequently incurred, and with loss, when loss is sustained.

14.—Every receiving account is debtor to one or more expending accounts, when the property received

has cost value; but whenever it has been acquired without cost, (a legacy *e.g.*,) or as profit, then the receiving account is debited, in respect thereof, to an artificial or fictitious account.

15.—Expending accounts are credited with the proceeds of property parted with; *i.e.*, with the value produced thereby.

16.—Every expending account is the creditor of one or more receiving accounts when the property parted with has produced value; but whenever property is expended without anything being acquired in its stead, then the expending account is credited, in respect thereof, by an artificial or fictitious account.

17.—Whenever property is acquired by means of an equal exchange of values, two real accounts are affected thereby. One of them is debited with its increase, meaning thereby the cost of that increase; and the other one credited with its decrease, meaning thereby the value produced by that decrease.

18.—Whenever property is acquired for which no equivalent is given out, and no obligation to part with an equivalent is created, one real account and one fictitious account are affected thereby. First the receiving account is debited with its increase, or the value thereof,

and then in consequence of nothing having been expended, as payment for it, *and of the utility of crediting some account with its value*, an artificial equivalent is entered in a fictitious account, by crediting stock therewith.

19.—Whenever property is acquired for which other property, of *less* value, is given out, two real accounts, and one fictitious account, are affected thereby. The receiving account is debited with its increase, or the value thereof; and the expending account credited, as if it had parted with property which had cost the same value. On balancing, however, it is seen that the expending account had not expended so much; that the said credit, as to part thereof, was only an artificial equivalent of the difference between the value received and the value imparted,—such difference being profit; and, that in consequence of this profit having actually been received into one of the real accounts, an artificial equivalent must be credited in a fictitious account, viz., stock, and must be transferred thereto from the credit side of the expending account.

20.—Whenever property is acquired for which other property, of *greater* value, is given out, two real accounts, and one fictitious account are affected thereby. The receiving account is debited with its increase, or the value thereof; and the expending account credited, as if it had parted with no more than had cost the same

value as the property received in its stead. On balancing, however, it is seen that the expending account has parted with a greater quantity, and, of course, at a loss; that the balance standing on the debit side, or as much thereof as the equivalent of the loss sustained, is unreal or fictitious surplus; that the said loss having issued from the credit side, as decrease, without return, of the property comprised therein, its artificial equivalent must be transferred to the debit side of stock, to show, in this latter place, so much diminution of the owner's worth.

The following accounts will present the matter in a clearer light, especially if the student will write out, in each case, the requisite cash account.

It must be prefaced that each one is debited with the cost of 60 yards of silk at 20s. per yard, and credited with the value produced by sales of that article, viz:—of 60 yards, as to the first, second, and third accounts; and of 30 yards, as to the fourth, fifth, and sixth accounts.

## I.

## SELLING ALL AT COST PRICE.

DR.		SILK.		CR.
To Cash	.. £60 0 0	By Cash	.. £60 0 0	

The above account shows equal exchange. Silk which had cost £60 is expended, and £60, in cash, received in its stead. Both properties are of equal value. They are natural equivalents. Neither profit nor loss results. No surplus remains. The account is closed.

## 2.

## SELLING ALL AT A PROFIT.

DR.			SILK.		CR.		
To Cash	...	£60 0 0		By Cash	..	£70 0 0	
" Profit	...	10 0 0					
		<u>£70 0 0</u>				<u>£70 0 0</u>	

The above account shows profit. Silk is expended and cash received in its stead. The cost of the silk was £60. Its natural equivalent in cash would be £60. But cash has received £70, and silk is credited with £70. The difference is profit. But the profit cannot be in both cash and silk. Cash contains it—*silk only shows its amount*. In cash it is substantial and real; *in silk only a name*. But cash does not disclose the profit. It only gives the *gross* result. By crediting silk with its proceeds, and deducting therefrom its cost, it is seen how much is profit; how much must be credited, or added to stock as its equivalent of that profit.

## SELLING ALL AT A LOSS.

DR.		SILK.	CR.	
To Cash	.. £60 0 0		By Cash	.. £50 0 0
			" Loss	.. 10 0 0
	<u>£60 0 0</u>			<u>£60 0 0</u>

The above account shows loss. Silk is expended and £50 in cash received in its stead. The cost of the silk was £60. The difference is loss—loss of silk through selling for £50 as much as had cost £60; as if £50 worth had been sold for £50, *and £10 worth given in for nothing.* By deducting the proceeds, on the credit side, from cost on the debit side, the extent of that loss is seen; the surplus on the debit side, or equivalent of loss issued out on the credit side, showing how much must be debited to stock, or deducted therefrom, as its equivalent of that loss.

## SELLING PART AT COST PRICE.

DR.		SILK.	CR.	
To Cash	.. £60 0 0		By Cash	.. £30 0 0
			" Balance	.. 80 0 0
	<u>£60 0 0</u>			<u>£60 0 0</u>
To Balance	.. £30 0 0			



## SELLING PART AT A PROFIT.

DR.		SILK.	CR.	
To Cash	..	£60 0 0	By Cash	.. £35 0 0
" Profit	..	5 0 0	" Balance	.. 30 0 0
		<u>£65 0 0</u>		<u>£65 0 0</u>
To Balance	..	£30 0 0		

## SELLING PART AT A LOSS.

DR.		SILK.	CR.	
To Cash	..	£60 0 0	By Cash	.. £25 0 0
			" Balance	.. 30 0 0
			" Loss	.. 5 0 0
		<u>£60 0 0</u>		<u>£60 0 0</u>
To Balance	..	£30 0 0		

As to the fourth, fifth, and sixth accounts, they show respectively that only 30 yards of silk were sold, leaving 30 yards thereof on hand. In the fourth account the quantity sold realized its cost price; in the fifth one, £5 more; and in the sixth one, £5 less.

If each of them were balanced, after being debited with the cost of 60 yards, and credited with the above mentioned produce of 30 yards, they would show a sur-

plus on the debit side, viz., of £30 in the fourth account; £25 in the fifth account; and £35 in the sixth account. But these respective sums would not represent silk remaining on hand. They would only show, in each case, the amount needed to give back to the merchant what he had expended, on buying the silk; and, of course, would show so much loss, if no portion of silk remained on hand.

But inasmuch as the merchant had not parted with the whole of his silk, the quantity remaining on hand must be brought into each account, in order to show the true result of each transaction.

The student knows, from what has gone before, that the quantity unsold was 30 yards; but when the merchant's transactions were numerous, it was necessary, on his needing that information, to turn to his warehouse ledger, or a stock book of his goods, showing, as to each article, the quantities received, quantities given out, and quantity or stock on hand at any date. On referring thereto he found that he possessed, or ought to possess, 30 yards of silk; but, to prevent any mistake, he checked the accuracy of the book by taking stock — *i.e.*, by inspecting, measuring, and making an inventory of his stock on hand.

Finding that the quantity on hand was really 30 yards, he credited his silk account therewith, and at cost price, viz., 20s. per yard: and now the first account showed neither profit nor loss; the second one profit, viz., £5

received in cash, on selling for £35 silk which had cost £30; and the third one loss—loss of silk, through selling for £25 silk which had cost £30.

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Profits arise in receiving accounts as property received in excess of property given out. Therefore they are artificially equalized by fictitious credits; or, in other words, fictitious equivalents of profit appear in expending accounts, and pass therefrom to the credit of stock.

Losses issue out of expending accounts, as property given out in excess of property received. Therefore they are artificially equalized by fictitious debits; or, in other words, fictitious equivalents of loss appear in receiving accounts, and pass therefrom to the credit of stock.

But profit and loss are not always carried direct to stock. On the contrary they are generally collected, on their way to stock, into a general account of profit and loss, the object of which is to exhibit the total result of profit or loss in one sum, and to enable its being transferred to stock in one sum.

Debiting and crediting are useful terms in book-keeping, because of their signification being large enough to include both real and fictitious elements in equalizing entries.

The most comprehensive rules for debiting and crediting are as follows, viz.:—

1. Debit what costs value.
2. Credit what produces value.

In the following diagram, which will fitly close this section, equalizing or fictitious entries are shown in *italics*; the property parted with is marked with an asterisk, thus, \*Cash; and the rest is the merchant's property remaining on hand.

The student is recommended to write out a set of accounts therefrom.

RECEIVED.				EXPENDED.			
*Cash .. ..	£800	0	0	<i>Stock .. ..</i>	£1,700	0	0
*Sugar .. ..	200	0	0				
*Wine .. ..	400	0	0				
*Silk .. ..	800	0	0				
<hr/>							
Cotton for Cash	800	0	0	*Cash for Cotton..	800	0	0
Cash for Sugar	850	0	0	*Sugar for Cash, viz.:			
				Repayment of cost	200	0	0
				<i>Profit .....</i>	150	0	0
Cash for Wine	300	0	0				
<i>Loss on Wine ..</i>	100	0	0	*Wine costing ..	400	0	0
				for £300 in Cash.			
J. Wilson's engage- ment to pay .... }	800	0	0	*Silk, sold on credit to J. Wilson, for }	800	0	0

If the student will strike out the items to which asterisks are prefixed, and will then separate the artificial entries, he will obtain the following results, viz. :—

#### I.—REAL ACCOUNT.

POSSESSIONS.			
Cotton .....	800	0	0
Cash .....	350	0	0
Cash .....	300	0	0
J. Wilson's debt..	300	0	0
	<u>£1750</u>	<u>0</u>	<u>0</u>

#### 2.—FICTITIOUS ACCOUNT.

Loss .....	100	0	0
Balance down....	1750	0	0
	<u>£1850</u>	<u>0</u>	<u>0</u>
Stock .....	1700	0	0
Profit .....	150	0	0
	<u>£1850</u>	<u>0</u>	<u>0</u>
Balance down....	1750	0	0

7.

#### BALANCING.

When the merchant had occasion to find, and to exhibit in his books, the difference between the debits and credits of any account, he added each side, and subtracted the smaller from the greater total, as follows, viz. :—

## MY CASH ACCOUNT.

Received gift of	£2000	0	0	Paid for silk	£1000	0	0
" legacy	500	0	0	" wine	400	0	0
" for silk	1200	0	0	" expenses	100	0	0
" " wine	200	0	0				
	<u>3900</u>	0	0		<u>1,500</u>	0	0
Less payments	1500	0	0				
Surplus	<u>£2400</u>	0	0				

But the mathematician adopted a very different method of exhibiting such difference, as shown below, in blacker type, viz:—

DR.	CASH.			CR.			
To gift	£2000	0	0	By silk	£1000	0	0
" legacy	500	0	0	" wine	400	0	0
" silk	1200	0	0	" expenses	100	0	0
" wine	200	0	0	" Balance	2400	0	0
	<u>£3900</u>	0	0		<u>£3900</u>	0	0
To Balance	2400	0	0				

This latter mode possesses a remarkable feature—the difference between debits and credits being entered, or added, on both sides, and in a peculiar form, viz., first on the weaker side, where it is added in with the items composing the lesser total, thereby equalizing both sides, and closing that statement of the account; and, next, on the opposite, or stronger side, as the first item in a new statement of the account.

This process, called **Balancing**, is so termed from comparison of an account with a balance, or scales. If the debit side contain the larger amount it is said to be the stronger or heavier side of the account, and the balance is said to fall on the debit side. But if the credits exceed the debits, the balance is said to fall on the credit side.

Balancing, therefore, is the act of equalizing the two sides of any uneven account, whenever occasion arises to transfer the difference between them, either to any other account, or to any new statement of the same account.

This is effected, as already shown, by adding to the account, on its weaker side, so much weight, or as large a sum, as to make it even with the stronger side; in other words, by *bringing down the balance* to a state of equilibrium; the amount so inserted there, for that object, being therefore called the **Balance**.

Balancing yields the same effect as if there were cancelled, on each side of any account, an amount equal to the total of the weaker side, leaving in view, on the stronger side, the resulting difference, as follows, viz.:—

Before cancelling	..	..	3900	1500
Amount cancelled	..	..	1500	1500
After cancelling	..	..	2400	...

It may also be justly compared to the familiarly known arithmetical expedient, used in certain operations of subtraction, of borrowing and then paying back; for, on balancing, the amount so entered on the weaker side is always, as it were, borrowed from the stronger side; but under an imperative condition of instantaneous repayment thereof, either to a new statement of the same account, as in the text; or to some other existing account in the ledger, to which such balance needs to be transferred; or to a new account, called balance account.

It is therefore of vital importance, for avoidance of serious error, that the student should understand, (and the practitioner not to fail to act accordingly,) that every balance, whether occurring in the ledger, or elsewhere, should be double-entered, either by being carried down, on the opposite side of the same account, or carried away to the opposite side of some other account.

As already stated, this mode of showing the difference in any account, viz., by first equalizing the two sides, and then equalizing the entry made for that object, or rectifying its effect, in the manner shown, was adopted by the mathematician to secure uniformity of posting and balancing: and it is an advantageous result thereof, considering the great danger there is of balances being entered only as closing items, that every such transaction is thereby subjected to the safe operation of double-entry.



It may here be added, that when the balance falls on the credit side, the old account must be debited, and the new account, or new statement, credited with the difference; but if the balance fall on the debit side, then the new account, or statement, must be debited, and the old account credited.

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## SECTION IV.

### *Concerning defective Nomenclature.*

Several of the technical terms used in book-keeping, through being indefinite, ambiguous, or obscure, cause perplexity, and prove a serious impediment to the acquisition of the art.

‘**Stock,**’ *eg.*, is a source of much confusion, through being generally regarded by learners as meaning only a trader’s stock of goods on hand.

To the reader of the foregoing pages it will not be necessary to repeat its larger signification. Etymologically considered, no better word could be used for its purpose; but, inasmuch as a more limited sense is popularly attached to it, and as ‘capital,’ is universally understood, it seems desirable that the latter should be adopted in lieu of ‘stock.’

**Journal**, as now used, differs widely from the original meaning and application of the term.

The book which is so called was, at the first, what its name implies—a Day Book ; every fact and transaction being entered therein, *and in the order of its date*.

But not the original entries of such facts and transactions ; for these appeared in a rough book, called the Waste Book, and were afterwards copied therefrom into the Journal, but in a peculiar form, to serve another object, viz., that of showing, in each case, which account in the ledger should be debited, and which one credited.

It is for the latter purpose that the Journal is now mainly used ; therefore it is unfortunate that it retains its inappropriate and misleading name. Sub-Ledger has been suggested as more suitable.

**Day Book** also needs to be explained, because of the restricted sense in which the term is now technically used in book-keeping.

As already shown the journal was originally the Day Book, or daily record of everything requiring to be recorded in books of account.

Afterwards, when the importance of original entries, as legal evidence, became widely known, the journal ceased to be the Day Book, and became used almost exclusively for the other object already mentioned.

Subsequently, it proved convenient to enter all cash transactions in a book by themselves. These were therefore separated, or abstracted from the general day book.

Another division of the day book took place when the advantage was seen of having a separate book for goods received.

Thus it came to pass, in consequence of opening, first, a separate day book for cash (called Cash Book); then a day book for goods received (called Invoice Book, from the invoices being posted or copied therein); and, afterwards, a day book for bills, that, at last, the name day book became limited to a book used exclusively for goods sold: in which sense every retail dealer understands the term.

The following is a list of the chief divisions of the day book, viz.:—

1. The Cash Book.
2. " Goods in; or Invoice Book; or Bought Book.
3. " Goods out; or Sold Book; or Day Book.
4. " Bill Book (for Bills of Exchange).

But, in addition thereto, others are employed, in businesses requiring a greater subdivision of the transactions; and, it must be added, the Journal is still used by some as a day book for all transactions which cannot fitly be entered in any other of their day books.

**Balance—The Balance falls—Bringing down the Balance.**—The balance of an account, being the excess of the stronger over the weaker side, always falls on the stronger side. If, *e.g.*, the balance is said to fall on the debit side, it means that the debits exceed the credits. In consequence, however, of its having to be inserted on the weaker side, to equalise it with the stronger side, a learner is sometimes puzzled to make out whether the expression, *the balance falls*, refers to the weaker or the stronger side.

Bringing down the balance is the act of equalizing the two sides by inserting the difference on the weaker side, and carrying it forward, as explained.

**Balanced—Closed.**—An account is said to be *balanced* when one of its sides exceeds the other, and the difference has been inserted, on the weaker side, and carried forward: and it is said to be *closed* when both its sides are equal without being balanced.

**Discount** allowed to a customer, as an abatement of price, should always be distinguished from discount which is of the nature of **Interest**.

**Profit and Loss Account.**—As loss is debited, and profit credited, the title given to this account in the United States, that of "Loss and Gain," is preferable to the English one, as the following illustration shows, *viz.* :

## PROFIT AND LOSS.

DR.					CR.
EXPENSES & LOSSES.			PROFITS.		
To Loss on Silk..	£100	0	0	By profit on Wine	80 0 0
" Salary of Clerk	50	0	0	" Interest on my	} 5 0 0
" Rent of Office	10	0	0	money in bank	
" Bank Commis- }	1	10	0	" Brokerage ..	10 0 0
sion .....				" Profit on Cot-	} 200 0 0
" Balance ....	133	10	0	ton .....	
	£295	0	0		£295 10 0
				By Balance .....	£133 10 0

## LOSS AND GAIN.

DR.					CR.
EXPENSES & LOSSES.			PROFITS.		
To Loss on Silk..	£100	0	0	By Profit on Wine	£80 0 0
" Salary .....	50	0	0	" Bank Interest..	5 10 0
" Rent .....	10	0	0	" Brokerage ..	10 0 0
" Bank Commis- }	1	10	0	" Cotton.. ..	200 0 0
sion .....					
" Balance ....	133	10	0		
	£295	0	0		£295 0 0
				By Balance ..	£133 10 0

END OF THE FIRST PART.

PART II.

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THE ART.

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INSTRUCTIONS, FORMS, AND PRACTICE.

In the preceding part of this work the writer endeavoured to show the development of Book-keeping as a Science. Here, he will pursue the same plan, so far as may be practicable, and needful for his object, by presenting the Art of Book-keeping just as, it may be fairly assumed, it gradually grew into its present condition.

By means of tracing existing arrangements to their origin, and of comparing different modes of accomplishing a common object, the student will be enabled, (and better enabled than he would be by any other mode of teaching the art,) to grasp the subject with clear perception of its fundamental principles, and to apply his knowledge, after a moderate course of practice, with the effect of an intelligent and skilful accountant.

Some repetition will be caused by the above mode of dealing with the subject, but the advantages gained thereby will be found to outweigh all objections.



## PART II.—THE ART.

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### *Instructions, Forms, and Practice.*

J. Costello, Merchant, commenced business, at Venice, on January 1st, 1480.

#### INVENTORY.

First he made an **Inventory** of what he possessed and owed on that day. He did this as a basis from which to learn, at any future time, by taking stock, and making out a fresh Inventory, how much he had gained or lost in the meantime.

His Inventory showed that he possessed capital to trade with, amounting to £950; his property consisting of the following

#### **Assets, viz.—**

Cash in hand	..	..	..	..	..	£400	0	0*
Wine	..	..	..	...	..	200	0	0
Due to him by N. Guido	..	..	..	..	..	550	0	0
						<hr/>		
						£1150	0	0

\* It is convenient to use current English money.



**Less Liability, viz.—**

Owing by him to L. Burgo	..	..	..	£200	0	0
<hr/>						
Showing, as his net worth, or capital, or stock				£950	0	0
<hr/> <hr/>						

**DAY BOOK.**

Next he provided himself with a book in which to record every fact and transaction connected with his business. This was his Journal† or **Day Book**.

And, in order that his Day Book might be the complete record he designed it should be, he begun by entering therein his inventory; and then, next thereto, his business transactions; both of them in the following form, viz.—

VENICE, 1st January, 1480.

Begun business this day, having

1. In Cash	..	..	..	..	..	£400	0	0
" " Wine	..	..	..	..	..	200	0	0
2. Due to me by N. Guido	..	..	..	..	..	550	0	0
3. Owing by me to L. Burgo	..	..	..	..	..	200	0	0

6th January.

4. Bought 150 yards of Silk for Cash	..	..	..	150	0	0
5. Bought 100 yards of Silk of F. Giotto	..	..	..	100	0	0
„ Received of N. Guido, on a/c	..	..	..	200	0	0

† This must not be confounded with the modern Journal.

## 9th January.

6. Paid F. Giotto, on a/c .. ..	£50 0 0
7. Paid for Office Furniture .. ..	20 0 0
8. Withdrew for House expenses .. ..	25 0 0

## 16th January.

9. Sold 180 yards of Silk for Cash .. ..	200 0 0
10. Sold 50 yards of Silk to L. Burgo .. ..	70 0 0

## 26th January.

.. Paid F. Giotto, balance .. ..	50 0 0
11. Received Legacy, bequeathed by my late aunt ..	300 0 0

## 31st January.

## 12. Paid Sundry Trade Expenses :

Salary of Clerk .. ..	£10 0 0
Books for Office .. ..	5 0 0
Rent of Office .. ..	25 0 0
	<hr/>
	40 0 0

13. Bought my Business Premises for Cash .. ..	350 0 0
--	---------

Thus he proceeded from day to day, using no other book than the above Day Book ; intending, however, to take stock at the end of the year, and to ascertain at that time, by comparison of the fresh inventory with the old one, how much he had gained or lost during the intervening twelve months.

## THE LEDGER.

But, although he was content to wait so long for exact knowledge of *his own* position, still it was ab-

solutely necessary that he should make out, from time to time, either for others with whom he traded, or for his own information, statements of the transactions he had had with others, showing how much they owed to him, or what he owed to them.

At the first he prepared these statements as too many shopkeepers do even yet ; for, casting his eye over his day book, he thus picked out the entries relating to the particular account he desired to make out, and copied them on a loose sheet of paper, in such form as to show the required information.

But soon he experienced the need of keeping copies of all such statements. Subsequently he saw the advantage of having them in a book. And, later on, in consequence of having sustained loss, owing to his eye having failed to notice an entry which ought to have been included in one of his accounts, he perceived the great importance, and imperative necessity, for the protection of his interests, of some method of regularly and systematically conveying into this **Ledger** *every transaction recorded in his day book*, in such order and form as to show how he stood with the various persons with whom he traded.

Lastly, he saw he must open similar accounts of his *Property* in the ledger—having acquired that knowledge of the principles of Book-keeping which has already been set forth in the first part of this treatise.

And now the student must follow him as he goes through the process of *opening*, *posting*, and *balancing* his ledger.

The transactions for January, already given, will furnish sufficient illustration thereof; and, for the sake of simplicity and clearness, as well as brevity, it will be better, at this stage, to limit the work thereto, just as if the merchant had found occasion to balance his books on January 31st.

#### OPENING AND POSTING THE LEDGER.

Now what the merchant had to do first was to open accounts in his ledger, showing how he stood, according to his inventory, on January 1, 1480; *i. e.*

1. An account of his property as a whole.
2. Separate accounts of each of the parts into which it was divided, or into which the nature and extent of his business caused him to classify it.

According to his inventory, he possessed £400 in cash. That fact must be entered in his whole property account. It must also be entered in an account of his money. Therefore he commenced by opening those accounts in his ledger.

The first one he entitled 'Stock,' meaning thereby the whole of the property he was staking or risking in his business; and the second one he entitled 'Cash.'

A separate folio, or page, of the ledger was set apart for each of these accounts, in order to leave room to receive, subsequently, other entries therein ; and each one was headed and ruled in the form hereafter shown, on page 65.

It was not for the reason commonly assigned in treatises on Book-keeping that he opened the above mentioned account of his 'stock;' for his total worth could be ascertained (as that is always ascertained) by means of extracting from the several accounts of the parts their respective balances.

And, in truth, 'stock' was set up for the purpose of enabling him to give to his accounts the relations of debtor and creditor, as will hereafter more plainly appear.

If a general account of his property would have given a sufficient view of his affairs, he would have stated it in a form showing his possessions on the left-hand side, and his liabilities on the right-hand side, as follows, viz.—

#### MY PROPERTY.

I HAVE				I OWE			
In Cash..	..	£400	0 0	To L. Burgo ..	£200	0 0	
Wine worth	..	200	0 0				
Due to me by							
N. Guido	..	550	0 0				

But it was necessary, for reasons already mentioned, to open a separate account with each of the persons to whom he was indebted, with each of them who was indebted to him, and for each of the things, or classes of things, he possessed: or, in other words, to substitute for the foregoing general account of his property as a whole, the following accounts of each of its parts—in each one of which, it will be perceived, the arrangement is preserved which shows his possessions on the left-hand side, and his liabilities on the right-hand side, viz.—

1.

MY CASH.

I have .. .. £400 0 0 |

2.

MY WINE.

I have Wine worth £200 0 0 |

3.

N. GUIDO

Owes me .. £550 0 0 |

4.

L. BURGO.

| I owe him .. £200 0 0

And it was also necessary to make each of the foregoing accounts appear as being debtor (Dr.) for everything entered on its left-hand side, and creditor (Cr.) for everything entered on its right-hand side.

Now, with respect to the above-mentioned £400, if the merchant had parted with wine, *e.g.*, and received £400 in cash in its stead, the student would readily understand that, in consequence of the merchant's cash having been increased at the expense of his wine, his cash account might be regarded as being indebted (or debtor) to his wine account for such increase of his cash; and his wine account as the creditor of that debtor.

But, in fact, as shown by his inventory, the merchant was not indebted for his £400 to anything which he had either parted with, or rendered himself liable to part with. There was no one who could be entered in his books as a creditor in respect thereof; nothing that could be credited with having imparted value in exchange for it.

Yet it was absolutely necessary to open his cash account, and to enter the £400 therein, in such form as to make the account debtor for that amount. Therefore it was requisite to create an artificial creditor.

And it was for that object, as already stated, that the so-called 'stock' account was set up—*i. e.*, not as a property account, but to supply an artificial debtor, or an artificial creditor, in every case of increase, or of decrease, occurring in any of the accounts of actual property, and not having, in any of the other accounts, a real debtor or a real creditor.

And now the student will easily follow and understand the posting of the merchant's inventory; *i. e.*, the **Opening of his Books.**

First, he entered the £400 as follows, commencing with his 'stock' account in his ledger, viz.—

Dr.	Stock.	Cr.
	By Cash	.. £400 0 0
Dr.	Cash.	Cr.
To Stock	.. £400 0 0	

Then he opened an account for 'Wine,' just as he had done for 'Cash,' and entered therein, on its debit side, and also in 'Stock,' on its credit side, the wine he possessed, together with its value; thereby debiting wine 'to stock,' and crediting stock 'by wine,' in the same form, and for the same reason, that cash had been debited with £400, and stock credited with that amount.

In the next place he opened an account with N. Guido, debiting him with £550, which Guido owed to him, and crediting stock therewith, as hereafter shown.

This completed the posting of his assets.

Lastly he opened an account with L. Burgo, to whom he owed £200, and whom he credited therewith in the following form, viz.—



DR.	L. BURGO.	CR.
	By Stock .. ..	£200 0 0

At the same time he debited stock with that amount, as follows, viz.—

DR.	STOCK.	CR.
To L. Burgo ..	£200 0 0	

And now his books were opened, and ready for the reception of his business transactions. Each of his assets and liabilities had been posted twice—once in ‘Stock’ and once in its own particular account; once to the debit and once to the credit. The sum of the whole was equal to the sum of all its parts; the total of the debits to the total of the credits.

Before proceeding further it is desirable to point out that every property account—in short, every impersonal account—can be personified by associating with it the owner of the books.

J. Costello’s accounts, *e.g.*, would have been personified if he had headed them in his books as follows, viz.—

MY STOCK;  
MY CASH;  
MY WINE;—

'Stock,' and 'Cash,' and 'Wine,' meaning respectively J. Costello's account of his stock; of his cash; and of his wine.

But there is an important difference between 'Stock' on the one side, and 'Cash' and 'Wine' on the other side, which must be noticed; for, while 'Cash' means the merchant's money; and 'Wine,' his property consisting of wine, it will be obvious to the attentive student that no sort of property is similarly represented by 'Stock'—*stock being, in fact, the merchant's account of his other accounts.*

In like manner any sub-division of stock may be personified. *E.g.*, the merchant's account of his trade expenses would have been personified by his heading it as follows, viz.—

#### MY STOCK, FOR TRADE EXPENSES.

With respect to the merchant's business transactions, they were as follows—

4. *Bought 150 yards of Silk, for Cash .. £150 0 0*

This means that he exchanged one property for another. He received silk and parted with money. For the silk he acquired, he was indebted to the cash he gave for it. Therefore he opened an account for silk, and therein debited it to cash, in the following form, viz.—

DR.		SILK.		CR.
To Cash	..	£150	0 0	

and, at the same time, he credited cash as follows, viz.—

DR.		CASH.		CR.
		By Silk	..	£150 0 0

thereby showing, in his silk account, the silk he had received, and its cost; and, in his cash account, decrease of his money, and the value produced thereby, viz., the silk he had purchased with it.

5. *Bought 100 yards of Silk of F. Giotto* £100 0 0

This means that he purchased silk *on credit*. The transaction differs from the preceding one in the fact that the merchant, instead of paying for the silk, on buying it, only promised to pay for it; instead of parting with the property he had undertaken to give for it, he only rendered himself liable to part with it. Therefore, while as before, he debited 'silk' with its increase, and the cost thereof, he did not debit it *to cash*, for he had not paid cash for it; nor to any other property, not having parted with any other property for it. In fact, it was to F. Giotto, who had trusted him, that he was indebted for it; to whom, therefore, the silk must be, and was, debited; and who must be, and was, credited *therewith*, as follows, viz.—

DR.	SILK.	CR.
To F. Giotto .. £100 0 0		
DR.	F. GIOTTO.	CR.
	By Silk .. .. £100 0 0	

5. *Received of N. Guido, on account* .. £200 0 0

In this case the merchant debited cash and credited Guido with £200.

As it may not at once appear to the student whether the foregoing increase of cash had cost value or not, it seems desirable to state that it had; Guido's liability, which previously amounted to £550, and which stood in the books as being worth £550, having been thereby reduced to £350.

6. *Paid F. Giotto, on account* .. .. £50 0 0

Here the merchant debited Guido and credited cash.

7. *Paid for Office Furniture.*

13. *Bought Business Premises.*

These correspond with No. 4.

8. *Withdrew for House Expenses* .. £25 0 0

In this case the merchant paid away £25. Clearly, therefore, cash had to be credited. It will be noticed, however, that he did not receive any property in exchange for it. Neither was any personal liability to give him property in its stead created by the transaction. On the contrary, the £25 so expended, was so much absolute diminution of his stock-in-trade. There was no real account that could be debited as having received property for the £25; nor was there any personal account which could be debited as owing property for it. But some account must be debited. Accordingly, an artificial debit had to be made; and, as before shown, stock was the account which must, ultimately, be so debited. Seeing, however, that the merchant desired also to classify his gains, losses, and expenses, he opened, for that purpose, certain accounts of profits and losses which were intended by him to be subsidiary to his stock account; and, among others, one which he entitled 'house expenses,' wherein to exhibit everything withdrawn by him from his business, or from its profits, to pay for the requirements of his household; and this he debited with the above-mentioned £25.

For similar reasons he also opened an account for 'trade expenses.'

Thus he dealt with every entry in his day book; and, for cross reference, marked in the day book, opposite each transaction, the two folios of the two

accounts in his ledger in which such transaction had been so entered, or *posted*, by him, thus

For:

½ Jan. 1. Begun business this day, having in Cash £400 0 0

And then, in his ledger, he entered the folio of the day book, as shown in the following ledger accounts of the foregoing transactions, viz.—

		(1.)†	
Dr.	STOCK.*		Cr.
Fo.		Fo.	
3. Jan. 1. To L. Burgo ..	£200 0 0	1. Jan. 1. By Cash ..	£400 0 0
		"    "    " Wine ..	200 0 0
		2. "    "    " N. Guido ..	550 0 0
		11. "    26. " Cash (Legacy)	800 0 0

		(2.)	
Dr.	CASH.		Cr.
4. Jan. 1. To Stock ..	£400 0 0	4. Jan. 6. By Silk ..	£150 0 0
5. " 6. " N. Guido ..	200 0 0	6. " 9. " F. Giotti ..	50 0 0
9. " 16. " Silk ..	200 0 0	7. " 9. " Furniture ..	20 0 0
11. " 26. " Stock, Legacy	800 0 0	8. " 9. " House Exps.	25 0 0
		10. " 26. " Giotto ..	50 0 0
		12. " 31. " Trade Exps.	40 0 0
		13. " " " Premises ..	850 0 0

		22.	
Dr.	WINE.		Cr.
1. Jan. 1. To Stock ..	£200 0 0		

\* This is always called Stock in old books. It is the same as "Capital." The latter title is becoming more generally used.

† This is meant for the ledger folio of the Capital account.

‡ This is as old books are headed. The modern method omits 'contra.'

(3.)

Dr.	SILK.		Cr.
4. Jan. 6. To Cash	.. \$150 0 0	9. Jan. 16. By Cash	.. \$200 0 0
5. " " " F. Giotto	.. 100 0 0	10. " " " L. Burgo	70 0 0

(4.)

Dr.	OFFICE FURNITURE.	Cr.
7. Jan. 9. To Cash	.. \$20 0 0	

(5.)

Dr.	BUSINESS PREMISES.	Cr.
13. Jan. 31. To Cash	.. \$250 0 0	

(6.)

Dr.	N. GUIDO.		Cr.
2. Jan. 1. To Stock	.. \$550 0 0	5. Jan. 6. By Cash	.. \$200 0 0

(7.)

Dr.	L. BURGO.		Cr.
10. Jan. 6. To M'dse.	.. \$70 0 0	3. Jan. 1. By Stock	.. \$200 0

(8.)

Dr.	F. GIOTTO.		Cr.
6. Jan. 9. To Cash	.. \$50 0 0	5. Jan. 6. By Silk	.. \$100 0 0
10. " 26. " "	.. 50 0 0		

(9.)

Dr.	HOUSE EXPENSES.		Cr.
8. Jan. 9. To Cash	.. \$25 0 0		

(10.)

Dr.	TRADE CHARGES.		Cr.
12. Jan. 31. To Cash	.. \$40 0 0		

## TRIAL BALANCE.

Now, after having thus classified, in his ledger, everything recorded in his day book, *i.e.*, all he possessed on commencing business; everything he had since received, or become possessed of; everything he had given out; every debt he had incurred; and every debt which others had incurred to him, he saw that, in consequence of each amount having been posted twice, viz., once to the debit, and once to the credit, the sum of the debit entries ought to be equal to the sum of the credits; and therefore, as a check upon the accuracy of the posting, he determined to try whether it was so or not. Accordingly, he added both sides of each ledger account, and wrote out a **Trial Balance**, in the following form, viz.:—

	<i>Debits.</i>			<i>Credits.</i>		
Capital .. ..	£200	0	0	£1,450	0	0
Cash .. ..	1,100	0	0	685	0	0
Wine .. ..	200	0	0	..		
Silk .. ..	250	0	0	270	0	0
Office Furniture ..	20	0	0	..		
Business Premises ..	350	0	0	..		
N. Guido .. ..	550	0	0	200	0	0
L. Burgo .. ..	70	0	0	200	0	0
F. Giotto .. ..	100	0	0	100	0	0
House Expenses ..	25	0	0	..		
Trade Expenses ..	40	0	0	..		
	<hr/>			<hr/>		
	£2905	0	0	£2905	0	0



Finding they agreed, he felt sure that the day book had been correctly posted ; and he was confirmed therein by finding that the entries in his day book also amounted to £2,905.

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### EXERCISE I.

James Wilson, Wine Merchant, commenced business on January 1st, 1868. His property consisted of the following

**Assets, viz.—**

Cash on hand	..	..	..	..	£1000	0	0
Due by John Thompson	..	..	..	..	500	0	0
					<hr/>		
					£1500	0	0

**Less Liabilities, viz.—**

Due to Edward Smith	..	..	..	..	£200	0	0
					<hr/>		
Showing as his net worth	..	..	..	..	£1300	0	0
					<hr/>		

His business transactions were recorded as follows,  
viz.—

1. Bought wine for cash	..	..	..	..	£150	0	0
2. Bought wine of F. Williams	..	..	..	..	50	0	0
3. Received of J. Thompson on account	..	..	..	..	200	0	0
4. Paid for office furniture	..	..	..	..	20	0	0
Paid salary of clerk	..	..	..	..	15	0	0

6.	Paid for insurance	..	..	..	..	£5	0	0
7.	Bought brandy for cash	..	..	..	..	175	0	0
8.	Sold brandy to E. Smith	..	..	..	..	80	0	0
9.	Bought wine of David Jones	..	..	..	..	150	0	0
10.	Paid David Jones on account	..	..	..	..	50	0	0
11.	Paid David Jones, on further account, £100, less discount allowed, £5							
		..	..	..	..	95	0	0
12.	Lent cash to E. Knight	..	..	..	..	55	0	0
13.	Purchased my business premises for	..	..	..	..	500	0	0
14.	Paid salary of clerk	..	..	..	..	25	0	0
15.	Sold wine for cash	..	..	..	..	98	0	0
16.	Sold brandy for cash	..	..	..	..	86	0	0
17.	Sold wine to E. Smith	..	..	..	..	90	0	0

The foregoing statement of assets, liabilities, and transactions corresponds, sufficiently for the present object, with the waste book of the Italian method. Separate day books are now used for 'Cash,' 'Goods in,' 'Goods out,' and 'Bills:' but it will be simpler work for the student, at this stage, to at once arrange the above facts and transactions as accounts in the ledger.

The accounts to be opened are 'Capital,' 'Wine,' 'Brandy,' 'Cash,' 'Business Premises,' 'Office Furniture,' 'Salary,' 'Insurance,' 'Discount,' 'F. Williams,' 'J. Thompson,' 'David Jones,' 'E. Knight,' and 'E. Smith.'

First credit capital with the merchant's assets, and debit 'cash,' and John Thompson, with the respective parts thereof, which capital is supposed to have given out to them.

Then debit capital, and credit Edward Smith, with the amount owing to Smith.

[If the student should incline to conclude, from the fact of the merchant being a real, and not fictitious creditor of John Thompson, and a real, not fictitious debtor to Edward Smith, that 'stock' is, therefore, as representing the merchant, a real, and not, as hereinbefore pronounced, a merely artificial account, he will probably be enabled, by the following remarks, to see his error.

For it is the account with John Thompson, and that alone, which shows Thompson's indebtedness to the merchant. It is therefore not only unnecessary, but would be incorrect, to have any other account in the books for that object.

If 'stock' were not an artificial account, then the effect would be as if the merchant had thought it necessary to enter Smith's debt twice, instead of once, in his ledger, as follows, viz.—

## 1.

DR.	E. SMITH.	CR.
To me .. ..	£200 0 0	

## 2.

DR.	MYSELF.	CR.
	By Smith ..	£200 0 0

Now, such book-keeping as that would require, on Smith paying his debt, that two accounts against him, in the ledger, should be discharged—an arrangement so favourable to confusion as to render it highly probable that he would be called upon to pay the amount twice instead of once.]

As to the rest of the transactions, debit each personal account with all that the merchant owes to the person whose name stands at its head, and credit it with all that is due to him from the merchant. Debit also each real account with all increase of the property which the account concerns, and with its cost; and credit it with all decrease thereof, and the value acquired in its stead.

Post each fact and transaction twice, as in the following case of buying wine for cash, viz.—

DR.	WINE.	CR.
1. To Cash ..	£150 0 0	
DR.	CASH.	CR.
	1. By Wine ..	£150 0 0

Enter in the day book, opposite each transaction, the two folios of the ledger in which you so post it, as follows, viz.—

For:

1/4 Jan. 1. Bought wine for cash .. £150 0 0

giving in the ledger, at the same time, as above shown, the folio of the day book on which the original entry of the transaction is recorded.

As to property received for which nothing tangible has been given out, and no liability to pay for it created, credit stock, or some division of stock, therewith.

As to property imparted, for which nothing tangible has been received, and no debt to the merchant created, debit stock, or some division of stock, therewith.

[Here it should be noticed that, as everything paid as purchase money is debited, so also are all expenses—salary, rent, taxes, interest, &c.—and for the same reason; for debiting really refers, not to the acquirement of property, but to its cost: and whatever is expended for keeping, managing and selling property, and also all loss connected with it, is so much further cost thereof.]

Having completed the posting, write out a Trial Balance in the foregoing form.

## BALANCING.

Now, when he had posted every fact and transaction twice in his ledger, and added both sides of each account, the merchant had before him the following results.

On their debit side the real accounts showed the whole of the property he had received, and its cost ; and the personal accounts showed all that he had become entitled to receive, and what he had given for it.

On their credit side the real accounts showed the whole of the property he had parted with, and the value received in its stead ; and the personal accounts showed the engagements he had entered into to part with property, and the value received therefor.

All other accounts than these, his real and personal accounts, showed, on their debit side, neither property received, nor property to be received, but further cost paid, or incurred, in respect thereof, than had been directly given for it, as its price ; and, on their credit side, neither property parted with, nor property to be parted with, but profit ; *i.e.*, value received, or to be received, in addition to repayment, at its cost price, of the property parted with.

And now he was able to find out one thing which he much desired to know, viz. how he stood with each of the persons with whom he had been dealing. In order to do so he turned to the personal accounts in his ledger. Those whose debits exceeded their credits were in his debt; and he was in debt to those whose credits exceeded their debits.

And he required to know, not only what he owed to others, and what others owed to him, but also whether he had gained or lost by his business; and, especially, which of his adventures had yielded profit, which of them loss, and the exact amount of such profit or loss, in order that he might be enabled, by the aid of that knowledge, to conduct his future operations in business with the greatest safety and advantage.

Now, since each of his real accounts showed, on its debit side, the property received, *and what it had cost*; and, on its credit side, the property sold, or otherwise disposed of, *and what it had produced*, therefore, in every account in which *all* the property had been parted with, leaving nothing on hand, the difference between the debits of the account, and its credits, was the profit, or the loss, on the merchant's transactions in the property comprised in that account—profit, if the credits, or proceeds, exceeded the debits or cost; but loss, if the latter were greater than the former.

For example, if the merchant had bought ten tons of sugar for £120, and sold them for £130, his 'Sugar' account would have been debited with £120, the cost, and credited with £130, the proceeds or produce of the sale of the sugar; and, on balancing, the excess of the latter over the former would have been his profit on the transaction, as shown in the following statement thereof, viz.—

DR.	SUGAR.	CR.
To Cash for 10 tons * £120 0 0		By Cash for 10 tons £130 0 0
" Profit . . . 10 0 0		
	<u>£130 0 0</u>	<u>£130 0 0</u>

But, in fact, as to some of his real accounts, the merchant had not disposed of all the property comprised therein. This was so, *e.g.*, in his silk account, which was debited with the cost of 250 yards, and only credited with the proceeds of 230 yards, because he had not parted with more than 230 yards; 20 yards remaining on hand.

Therefore he was not able to close his silk account as the above *exhausted* account is closed; nor could he then make out what amount of profit, or of loss, would ultimately result, on his selling the rest of his silk.

\* Quantities are not always given in the ledger.



But, although he could not know, at that time, what he would finally gain or lose in respect thereof, yet he was able to determine, and with exactness, what he had gained or lost on that portion of his silk which had been disposed of. This he did by crediting his silk account with the value, *at its cost price*, of the silk which remained on hand, as follows, viz.—

DR.			SILK.			CR.		
	Yards.			Yards.				
To Cash	for 150	£150 0 0		By Cash	for 180	£200 0 0		
" Giotto	" 100	100 0 0		" Burgo	" 50	70 0 0		
" Profit	..	40 0 0		" Balance	20	20 0 0		
		<u>250</u>	<u>£290 0 0</u>			<u>250</u>	<u>£290 0 0</u>	
	Yards.							
To balance	.. 20	£20 0 0						

Thus he made use of *two* accounts, in order to attain, and to exhibit the results of his dealings in silk—one to *discover his profit*, and the other to *show his stock on hand*; for, by crediting his unsold silk, and carrying it forward, as above shown, he really abstracted it from one account, and conveyed it to another.

By means thereof the first of them became an exhausted account; for everything entered on its debit side, as having been received, was also entered on its credit side as having been expended.

But the account was thereby equalized *in quantity alone, and not in value*. In this particular the credits exceeded the debits. This was due to the silk he had disposed of having produced more than its cost. The excess was his profit. It showed how much he had increased his capital, or stock, by trading in silk. To that extent his stock account must be increased, to make it represent his present worth. This he accomplished by debiting silk and crediting stock.

And now his silk account was *closed*.

It will be obvious therefrom that every real account, before it can be closed, must be subjected to two distinct operations, to equalise its debits and its credits, viz.—

1. As regards *quantity*.
2. As regards *value*.

And, further, that the former must precede the latter process, seeing that it is not until the quantities credited are equal to the quantities debited that their respective values can be compared, and the difference ascertained.

#### TAKING STOCK.

It was necessary, as already stated, that the merchant should credit each of his real accounts with the

quantity or stock on hand, of the property comprised therein, before he could arrive at the profit or loss attending his transactions in connection therewith.

For that purpose he deducted the quantities he had sold, or otherwise disposed of, from the quantities he had purchased, or otherwise become possessed of; and, on crediting the difference, as hereinbefore explained, he debited a new account therewith.

It is important, however, to notice, that the foregoing process did not necessarily exhibit, in its result, what the merchant actually possessed. It only showed what he ought to possess, according to his books. But if he had given or received over weight or over measure, or if he had sustained loss from waste, theft, damage, or in any other way, which had not been taken into account, then his actual property would be either more or less than the quantity shown in his books.

Therefore it was necessary to **take stock**, in order to find out, with exactness, what he possessed, and what he had really gained or lost; *i. e.*, it was necessary to inspect his property; to make out an accurate inventory of it; and to attach to each article its fair value to him at that time.

He did not, however, take stock on every occasion of balancing his books, because, in the first place, it

proved a tedious and troublesome process, and a serious interference with his ordinary course of business, when the number and variety of the articles he traded in became great ; and, also, because it was not needful to do it with the frequency with which it was requisite, or expedient, to balance his accounts in the manner first described.

Once a year, at the least, however, he took stock, so as to ascertain, with exactness, the extent of his profit or loss.

To have neglected for a longer period so important a check on the state of his affairs would have been highly imprudent and unsafe ; for it is possible for a man's books to present the appearance of great prosperity, while, at the same time, through unknown losses, from any of the foregoing causes, he may be nearly or entirely insolvent.

A simple illustration will suffice.

If, *e.g.*, the merchant was regular in entering in his cash account everything he received and everything he paid ; if, also, he regularly balanced his cash account from to day, so as to show the amount of cash he ought to have on hand ; if he did these things, but failed to count his cash, so as to see if his till corresponded with his books ; if, also, his cash transactions were numerous,

and large in amount, and his money remained about, within reach of any who were dishonestly inclined, large amounts might be abstracted from time to time, without his knowing it, till, at last, after long neglect of an important duty, he suddenly discovered that his books showed one amount, and his till or pocket another, and very much smaller sum.

Here it may be stated that while a general stock taking is usually made once a year, yet that, as to cash, the work should be done daily. Every day the cash account should be balanced—every day the cash on hand should be compared therewith, or serious loss may be apprehended.

And now, having taken stock, the merchant balanced and closed his accounts.

His capital was the first one. This he necessarily left till the last.

Next came his cash account. He had received £1,100, and paid £685. Therefore he ought to have £415 in hand, which in fact, he had. Accordingly he credited cash therewith, and, at the same time, debited his balance account with his balance of cash on hand. And now the debits and credits of cash were equal—the account was closed.

His wine account showed that he had received wine which had cost him £200. His inventory showed that he yet possessed it; and, seeing that it was still worth, to him, the £200 he had given for it, he therefore credited his wine account, and debited his balance account therewith, and thereby closed his wine account.

His silk account showed that he had bought silk for £250, and sold part of it for £270. His inventory showed that he still had 20 yards on hand. This, according to the quantities bought and the quantities sold, was what he ought to have. The silk had cost him £1 per yard. It was still worth it. Therefore he credited his silk account, and debited his balance account therewith, and thereby closed his silk account.

As to his office furniture account he treated it just as he had treated his wine account.

So, also, he treated the next of his accounts, viz., 'business premises.'

It is desirable here to state that if either his office furniture, or his business premises, had depreciated in value, then the merchant would have credited such account, and debited balance account, therewith, at its reduced value; in which case, seeing that the credit would then have been less than the debit, it would have

been necessary to equalize the account by a credit, showing the amount of the merchant's loss in consequence of such depreciation of his property; and, at the same time, to debit his stock account with such diminution of his total worth.

His next account, with N. Guido, showed that Guido owed him £350. He therefore debited his balance account therewith, and, at the same time, closed the account with Guido, by crediting it with the amount so transferred to the balance account therefrom.

As to his account with L. Burgo, he credited his balance account with £130, the amount owing by him to Burgo; and, at the same time, closed the account with Burgo, by debiting it with the amount so transferred to his balance account therefrom.

His account with Giotto was already equalized and closed. There was nothing due to him, or for him, nothing to transfer to 'balance.'

His next account, viz. with  
not a property account  
to balance account  
The account  
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The same remarks apply to his account, for 'trade charges.'

#### THE PROFIT AND LOSS ACCOUNT.

It has been shown that the merchant equalized his accounts, first in quantity and then in value ; that if the credits exceeded the debits *in quantity*, the excess was *property*, and was therefore transferred to the debit of his balance account, as so much property on hand ; that if the credits exceeded the debits *in value*, the excess was *profit*, and was therefore transferred to the credit of his stock account, as showing so much increase of his worth ; while, on the contrary, if the debits were greater in value than the credits, the excess was *loss*, and was therefore transferred to the debit of his stock account, as showing so much diminution of his stock, or capital, or worth.

It must now be explained, that while he did, ultimately, credit his stock account with all his profits, and debit it with all his losses, yet that he did not so directly convey them to his stock account as might be supposed from some of the last preceding paragraphs.

For, in consequence of his wishing to know, first in detail, and then as a total, what he had gained, and what he had lost, he opened certain intermediate accounts for that purpose.



And, first, his desire for detailed information was accomplished by opening one account for 'house expenses,' and another for 'trade expenses,' instead of having, either a single account for 'house and trade expenses,' or a still more general account of his profits and losses.

And if the extent or nature of his business had required it, he would have opened a yet larger number of branch accounts of his expenses, as, *e.g.*, separate accounts for salaries, rent, and trade expenses.

As to his desire for a collective statement, it was effected by his opening an account for *all* his profits, losses and expenses.

This he called his **Profit and Loss Account**.

Into this last mentioned account he gathered, from all his real accounts, and from all his branch accounts of gains, expenses and losses, their respective balances of profit and loss.

And now he had before him, in a single account, a classified statement of the results of his transactions in trade, showing which departments of his business had been profitable, and which of them unprofitable; and, under suitable heads, the nature and amount of the *charges* incurred in carrying on his business.

His next object was to know whether the total of his gains was greater or less than the total of his losses. Accordingly, he balanced his profit and loss account. It showed, on its debit side, that he had paid, in charges incidental to the conducting of his business, £65 ; while, on its credit side, it showed that his profits amounted only to £40—the profit on his sales of silk. So far, his business had resulted in loss. The amount thereof was £25. His stock, or capital, was that much less than what he started with, for he had parted with £65 in earning £40 ; and, accordingly, his stock must be reduced to that extent. Therefore, on balancing his books, he debited stock, and credited profit and loss therewith.

After which his accounts were as follows, viz.—

		(1.)	
Dr.	STOCK.		Cr.
3. Jan. 1. To L. Burgo ..	£200 0 0	1. Jan. 1. By Cash ..	£400 0 0
" " 31. " Profit and loss	25 0 0	" " " Wine ..	200 0 0
" " " " Balance ..	1,225 0 0	2. " " " N. Guido ..	550 0 0
		11. " 26. " Cash (Legacy)	800 0 0
	<u>£1,450 0 0</u>		<u>£1,450 0 0</u>

		(2.)	
Dr.	CASH.		Cr.
4. Jan. 1. To Stock ..	£400 0 0	4. Jan. 6. By Silk ..	£150 0 0
5. " 6. " N. Guido ..	200 0 0	6. " 9. " F. Giotti ..	50 0 0
" " 16. " Silk ..	200 0 0	7. " 9. " Furniture ..	20 0 0
11. " 26. " Stock, Legacy	800 0 0	8. " 9. " House Exps.	25 0 0
		10. " 26. " Giotto ..	50 0 0
		12. " 31. " Trade Exps.	40 0 0
		13. " " " Premises ..	850 0 0
		" " " Balance ..	415 0 0
	<u>£1,100 0 0</u>		<u>£1,100 0 0</u>

(2a.)

Dr.	WINE.	Cr.
1. Jan. 1. To Stock .. £200 0 0	Jan. 31. By Balance ..	£200 0 0

(3.)

Dr.	SILK.	Cr.
4. Jan. 6. To Cash .. £150 0 0	9. Jan. 16. By Cash ..	£200 0 0
5. " " " F. Giotto .. 100 0 0	10. " " " L. Burgo ..	70 0 0
" " " Profit and loss 40 0 0	" " " Balance ..	90 0 0
	<u>£200 0 0</u>	<u>£200 0 0</u>

(4.)

Dr.	OFFICE FURNITURE.	Cr.
7. Jan. 9. To Cash .. £20 0 0	Jan. 31. By Balance ..	£20 0 0

(5.)

Dr.	BUSINESS PREMISES.	Cr.
13. Jan. 31. To Cash .. £350 0 0	Jan. 31. By Balance ..	£350 0 0

(6.)

Dr.	N. GUIDO.	Cr.
2. Jan. 1. To Stock .. £550 0 0	5. Jan. 6. By Cash ..	£200 0 0
	" " Balance ..	850 0 0
	<u>£550 0 0</u>	<u>£200 0 0</u>

(7.)

Dr.	L. BURGO.	Cr.
10. Jan. 6. To Silk .. £70 0 0	3. Jan. 1. By Stock ..	£200 0 0
" " " Balance .. 180 0 0		
	<u>£200 0 0</u>	<u>£200 0 0</u>

(8.)

Dr.	F. GIOTTO.		Cr.		
6. Jan. 9. To Cash	..	£50 0 0	5. Jan. 6. By Silk	..	£100 0 0
10. „ 26. „	..	50 0 0			
		<u>£100 0 0</u>			<u>£100 0 0</u>

(9.)

Dr.	HOUSE EXPENSES.	Cr.
8. Jan. 9. To Cash ..	£25 0 0	Jan. 31. By Profit and loss £25 0 0

(10.)

Dr.	TRADE CHARGES.	Cr.
12. Jan. 31. To Cash ..	£40 0 0	Jan. 31. By Profit and loss
		£25 0 0

(11.)

Dr.	PROFIT AND LOSS.				Cr.		
Jan 31. To House expenses	£25	0	0	Jan. 31. By Silk ..	£40	0	0
" " " Trade charges	40	0	0	" " " Stock ..	25	0	0
	<u>£65</u>	<u>0</u>	<u>0</u>		<u>£65</u>	<u>0</u>	<u>0</u>

(12.)

Dr.	BALANCE ACCOUNT.				Cr.		
Jan. 31. To Cash ..	£415	0	0	Jan. 31. By Burgo ..	£180	0	0
„ „ „ Wine ..	200	0	0	„ „ „ Stock ..	1,225	0	0
„ „ „ Silk ..	20	0	0				
„ „ „ Furniture ..	20	0	0				
„ „ „ Business premises	850	0	0				
„ „ „ Guido ..	850	0	0				
	<u>£1,855</u>	<u>0</u>	<u>0</u>				
					<u>£1,855</u>	<u>0</u>	<u>0</u>

Although every real account is first balanced, and then closed into profit and loss, yet the balancing entry is placed *after* that of profit and loss, in order that it may be immediately connected with the first item of the new account, as on page 89.

#### EXERCISE II.

*The student must turn to the appended exercises, and perform the work which is there directed to be done.*

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#### THE BALANCE SHEET.

And now his accounts were all closed, except two, viz., his balance and stock accounts.

For, in the first place, all his real accounts, as to quantity, and also all his personal accounts, were closed into his balance account.

And, in the next place, all his real accounts, as to value, and also all his accounts of profits, losses, and expenses, were closed, intermediately, into his profit and loss account ; and, finally, into his stock account.

Consequently his balance account, as representing his property, had altogether superseded his real and

personal accounts, which, in fact, were thereby annihilated ; just as all his real accounts, as to value, and also all his fictitious accounts, had flowed into stock.

It must now be explained, however, that the method which once prevailed of having a balance account in the ledger, and of closing the real and personal accounts into it, as above shown, is rarely used in modern practice.

For, seeing that the merchant had not discontinued his business (his only object, in balancing, being to ascertain the state of his affairs) it will be obvious that he was under the necessity, for further transactions, of at once re-opening his real and personal accounts, as to everything comprised in such balance account, just as if he were commencing business anew, and as if such balance account were the inventory of what he then possessed and owed.

Therefore the simpler and readier course has now obtained of carrying down the balance on hand, as in the following form:—

DR.	SILK.	CR.
To Cash .. ..	<u>£20 0 0</u>   By Balance ..	<u>£20 0 0</u>
To Balance ..	£20 0 0	

That is to say, that when an account is credited with a balance on hand, then a continuation of that account (but as a new account), instead of a balance account, is debited with the quantity on hand.

And then, for the purpose of allowing the accounts thus to be balanced, and left open, instead of being closed, a **Balance Sheet** is prepared therefrom, either in a separate book, called balance book, or on a sheet of paper, in the following form, viz.—

DR.                      BALANCE SHEET OF J. COSTELLO.                      CR.

January 1, 1840.

LIABILITIES.				ASSETS.			
To L. Burgo	..	£130	0 0	By N. Guido	..	£350	0 0
				„ Wine	..	200	0 0
				„ Silk	..	20	0 0
				„ Furniture	..	20	0 0
				„ Business premises	..	350	0 0
„ Balance	..	1,225	0 0	„ Cash	..	415	0 0
		<u>£1,355</u>	<u>0 0</u>			<u>£1,355</u>	<u>0 0</u>
				By Balance .. £1,225 0 0			

It may be useful to point out here a source of doubt to learners, arising from the fact that, in balance accounts, assets are entered on the debit side, while, in balance sheets, they sometimes appear on the other side.

As to balance accounts, if the student has profited from the preceding explanations, he will know that they are rightly debited with assets and credited with liabilities, and will here be able to give reasons for their being in that form.

With respect, however, to balance sheets, it depends upon the particular form of the heading of each account, whether the assets should be on the debit or on the credit side.

If a balance sheet be written out simply as a statement of assets and liabilities, there is no logical necessity to place the property on one in preference to the other side—

THE STATE OF J. COSTELLO'S AFFAIRS.

ASSETS.		LIABILITIES.
---------	--	--------------

and

THE STATE OF J. COSTELLO'S AFFAIRS.

LIABILITIES.		ASSETS.
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being precisely alike in meaning, and each one as correct as the other, in its form.

But if the balance sheet be stated *in the form of an account*, it must be made out in one or other of the following forms, viz.—



## 1.

Dr.        ————— IN ACCOUNT WITH J. COSTELLO.        Cr.

## 2.

Dr.        J. COSTELLO IN ACCOUNT WITH —————.        Cr.

The first of these forms is the one which governs every account in the ledger—'N. Guido,' *e.g.*, meaning 'N. Guido in account with J. Costello.' Therefore balance account, which is but an aggregation of the real and personal accounts of the ledger, is in that form ; its meaning being '*Sundry persons and things* in account with J. Costello.' Consequently balance accounts are debited with everything possessed, *and its cost*, and credited with everything due, *and the value produced* by the liability incurred.

As to form 2, it will not be necessary to say that, according thereto, Costello's liabilities must be debited, and his assets credited.

It should be stated however that it is the latter form which is mostly used for balance sheets.

## EXERCISE III.

*The student must here refer to the appended Exercises.*

## THE JOURNAL.

Now, according to the Italian method, each of the foregoing facts and transactions would have been *journalized* before being entered in the ledger: *i.e.*, it would have been entered, in a formal manner, in another book, which received the name of Journal from its superseding the book which was originally the day book. In fact, the Journal became the day book, while its predecessor, the book of original entry, became regarded as a rough memorandum book, and hence received the name of WASTE BOOK.

As stated in Part I, the Journal has now ceased to be a day book,\* and its name is not only *incorrectly* used, but *mischievously* so; for, since learners are misled thereby, it is an impediment to the acquisition of the art of book-keeping.

But though the journal has ceased to be a day book, yet it is still made use of for that special purpose for which it was originally devised, *viz.*, to show, as to each transaction, in a prescribed form, which account in the ledger should be debited, and which one credited.

The transactions of J. Costello have not been journalized, however, because it is better, at this stage,

\* Some houses, as will be shown, still use it as their day book for everything except cash and bills.

that the student should carry them directly to their respective accounts in the ledger. This course, while showing him that the Journal is not an essential necessity in book-keeping, will at the same time prepare him to perceive its great usefulness, and to appreciate its just value.

And, as to J. Costello's transactions, it has been practicable to perform the peculiar work of the Journal mentally, and to post his ledger from the day book.

But transactions will hereafter arise which will display the advantage of having a book that requires the book-keeper to *think out* the true double effect thereof, and to enter it formally therein, before posting them into the ledger. Then, again, the Journal not only points out *which accounts* are to be debited and credited, but it secures that the two required entries are duly made in the ledger. It is a protection against the liability there otherwise is to make only a *single entry* of one or other transaction.

But the Journal is not required in every business, and should be used only when it is really necessary.

The following *modern* form of Journal comprises the foregoing transactions of J. Costello.


Ledger folio.	Date.	Entries.†	Drs.		Crs.	
			£	s. d.	£	s. d.
2	Jan. 1	Cash .. .. Dr.	400	0 0		
1		To Stock .. ..			400	0 0
3	" "	Wine .. .. Dr.	200	0 0		
1		To Stock .. ..			200	0 0
6	" "	N. Guido .. .. Dr.	550	0 0		
1		To Stock .. ..			550	0 0
1	" "	Stock .. .. Dr.	200	0 0		
7		To L. Burgo .. ..			200	0 0
3	" 6	Silk .. .. Dr.	150	0 0		
2		To Cash .. ..			150	0 0
3	" "	Silk .. .. Dr.	100	0 0		
8		To F. Giotto .. ..			100	0 0
2	" 1	Cash .. .. Dr.	200	0 0		
6		To N. Guido .. ..			200	0 0
8	" 9	F. Giotto .. .. Dr.	50	0 0		
3		To Cash .. ..			50	0 0
4	" "	Office Furniture .. Dr.	20	0 0		
2		To Cash .. ..			20	0 0
9	" "	House Expenses .. Dr.	25	0 0		
2		To Cash .. ..			25	0 0
2	" 6	Cash .. .. Dr.	200	0 0		
3		To Silk .. ..			200	0 0
7	" "	L. Burgo .. .. Dr.	70	0 0		
3		To Silk .. ..			70	0 0
8	" 26	F. Giotto .. .. Dr.	50	0 0		
2		To Cash .. ..			50	0 0
2	" "	Cash .. .. Dr.	800	0 0		
1		To Stock, for Legacy ..			800	0 0
10	" 31	Trade Expenses .. Dr.	40	0 0		
2		To Cash .. ..			40	0 0
5	" "	Business Premises .. Dr.	850	0 0		
2		To Cash .. ..			850	0 0
Total .. ..			2905	0 0	2905	0 0

† Only the *entry* is given here, because the *narration*, or details of each, is preserved in the day book. If the day books were intended to be destroyed, it would be necessary to introduce full particulars into the journal, just as if the journal were the original book of entry.

As the oldest or Italian form of Journal, notwithstanding its unsystematic character, and its great inferiority, as to simplicity, clearness, and utility, as compared with the modern form hereinbefore given, is still largely used in mercantile houses, where old-fashioned forms are adhered to from an unreasoning and unreasonable unwillingness to make any change, it is necessary to make the student acquainted with it, seeing that he may have to keep or examine books in accordance therewith.

The following comparison (on pp. 98-99) of the Italian form with the prevailing method, will best enable the student to perceive wherein they differ, and to understand the excellence of the modern system.

The student will perceive, in the Italian Journal, that the debits and credits are in the same column. There is nothing to distinguish the one from the other, except the entry of Dr. or Cr. Consequently the danger of posting a credit as a debit, or a debit as a credit, is very great, as compared with posting from the modern Journal; so that it requires more careful attention, and therefore more time, and even greater skill, both to journalize, according to the Italian method, and to post the ledger therefrom. This is increased by reason of the entries commencing sometimes with a debit, and sometimes with a credit.



The distinguishing features of the modern form, which render it so much safer to use, and easier to understand, are these—

Every entry begins with a debit.

Every debit is entered on a line distinct from that of its credit.

The money values of the debits and credits are arranged in two separate columns—debits being entered in the left hand column, and credits in the right hand column.

These columns are reserved exclusively for *posting* amounts. Consequently it can be seen at once, as to each entry, that the debits are equal to the credits; while, by means of adding up both columns continuously for any period—a month, quarter, or year, *e.g.*—an additional check is obtained, where the plan of journalizing everything is adopted; for, in such case, the total of the debits, and that of the credits, should respectively agree with the totals of the trial balance for the same period, when such trial balance comprises the *face* of the ledger, (*i.e.* the totals, not the balances, of the debits and credits) as in the foregoing illustration.

In calling over the Journal with the ledger there is far less liability to error than attaches to the unsystematic and disorderly form of the Italian Journal.

## I. ITALIAN JOURNAL.

Folio.		1ST JANUARY.	£	s.	d.	£	s.	d.
Drs.	Crs.							
2		Cash Dr. to Sundries—						
	6	To Wm. Hughes .. ..	40	0	0			
	8	„ Joseph James .. ..	70	0	0	110	0	0
		4.						
	2	Cash Cr. by Sundries—						
9		By W. Jones .. ..	80	0	0			
10		„ John Thompson .. ..	40	0	0			
11		„ Samuel Austin .. ..	30	0	0	150	0	0
		9.						
24		Sugar, per Maria, Dr. to Sundries						
	26	To Freight a/c., for Freight ..	14	0	0			
		„ „ Lighterage	1	10	0	15	10	0
	12	„ James Man, for Brokerage				10	0	0
	28	„ Charges a/c. .. ..				2	0	0
	29	„ Commission a/c. .. ..				10	0	0
						37	10	0
		12.						
25		Wine a/c. Dr. to Sundries—						
	15	To John James .. ..	118	0	0			
	28	„ Charges a/c. .. ..	8	0	0			
	39	„ Profit and Loss.. ..	5	0	0	131	0	0
		„						
	25	Wine a/c. Cr. by Sundries—						
13		By A. Wilson .. ..	100	0	0			
40		„ Balance .. ..	31	0	0	131	0	0

## 2. MODERN JOURNAL.

Fo:	1ST JANUARY.	£ s. d.	£ s. d.
2	Cash .. .. . Dr.	110 0 0	
6	To Wm. Hughes .. ..		40 0 0
8	„ J. James .. ..		70 0 0
4.			
9	W. Jones .. .. . Dr.	80 0 0	
10	J. Thompson .. ..	40 0 0	
11	S. Austin .. ..	30 0 0	
2	To Cash .. ..		150 0 0
9.			
24	Sugar, per Maria .. .. Dr.	37 10 0	
26	To Freight a/c.—		
	For Freight .. £14 0 0		
	„ Lighterage 1 10 0		15 10 0
12	„ J. Man, for Brokerage .. ..		10 0 0
28	„ Charges a/c. .. ..		2 0 0
29	„ Commission a/c. .. ..		10 0 0
12.			
25	Wine a/c. .. .. . Dr.	181 0 0	
15	To J. James .. ..		118 0 0
28	„ Charges a/c. .. ..		8 0 0
39	„ Profit and Loss a/c. .. ..		5 0 0
"			
13	A. Wilson .. .. . Dr.	100 0 0	
40	Balance a/c. .. ..	81 0 0	
25	To Wine account .. ..		181 0 0
		559 10 0	559 10 0



It may be added that when the Journal is constituted a *Check Ledger*, by passing every thing through it up to the time of taking out a trial balance, as above alluded to, and adding the debits and credits continuously from the previous balancing, so as to compare the totals with those of the trial balance, it is also desirable that it should contain what are called *finishing entries*, in order to make it a complete record of the business.

The finishing entries of the foregoing transactions are as follows, consisting of all the items of profit and loss which have to be conveyed from the respective real and fictitious accounts into stock, viz.—

FO:	Date.		£ s. d.	£ s. d.
11	Jan. 31	Profit and Loss .. Dr.	65 0 0	
9		To House Expenses ..		25 0 0
10		„ Trade Charges ..		40 0 0
3	„ „	Silk .. .. . Dr.	40 0 0	
1		Stock .. .. . „	25 0 0	
11		To Profit and Loss ..		65 0 0
		Total ..	180 0 0	180 0 0

And when a balance account is kept in the ledger the *balance entries* should, similarly, be passed through the Journal: and even when no such account is kept, it is desirable to record in the Journal the balances of the various accounts, so that everything connected with the

business may be found therein, either in detail, and as original records, or summarily, and as an index to the book and page where the details are to be found.

When finishing entries are journalized, in the above form, it becomes unnecessary to give details in the ledger account of profit and loss; which in such case assumes, in the eyes of the uninitiated, and to their great confusion, the following mysterious form, viz.—

Dr.	PROFIT AND LOSS ACCOUNT.	Cr.
To Sundries .. £65 0 0	By Sundries .. £65 0 0	

So, also, the balance account is limited to a single debit and a single credit, when its details have, likewise, been journalized.

Another form of Journal, which is used in some of the Government offices, should here be noticed, viz.—

For:	Debits.	Entry and Narration.	Credits.
	£ s. d.	January 1.	£ s. d.
2	110 0 0	Cash .. .. .	
6		To W Hughes .. ..	40 0 0
8		„ J. James .. ..	70 0 0
		4-	
9	80 0 0	W. Jones .. ..	
10	40 0 0	J. Thompson .. ..	
11	30 0 0	S. Austin .. ..	
2		To Cash .. ..	150 0 0
	260 0 0	Total	260 0 0

It differs from the preceding modern form only in having the debit column placed at the left hand of the page. This is done to diminish the danger of posting credits for debits and debits for credits, but the author does not consider that any advantage is gained thereby, as compared with the arrangement exemplified on pp. 95 and 99.

Of late, another form has been introduced. Its peculiar feature consists of its being kept as a ledger account, as in the following illustration, viz.—

Dr.			Cr.		
Fo:	January 1.	£ s. d.	Fo:	January 1.	£ s. d.
2	Cash .. ..	400 0 0	1	Stock .. ..	1150 0 0
3	Wine .. ..	200 0 0			
6	N. Guido ..	550 0 0			
1	Stock .. ..	200 0 0	7	L. Burgo ..	200 0 0
	6.			6.	
3	Silk .. ..	250 0 0	2	Cash .. ..	150 0 0
2	Cash .. ..	200 0 0	8	F. Giotto ..	100 0 0
	9.		6	N. Guido ..	200 0 0
8	F. Giotto ..	50 0 0	2	Cash 9.	95 0 0
4	Office Furniture	20 0 0			
9	House Expenses	25 0 0			
	16.			16.	
2	Cash .. ..	200 0 0	3	Silk .. ..	270 0 0
7	L. Burgo ..	70 0 0			
	26.			26.	
8	F. Giotto ..	50 0 0	2	Cash .. ..	50 0 0
2	Cash .. ..	300 0 0	1	Stock .. ..	300 0 0
	31.			31.	
10	Trade Expenses	40 0 0	2	Cash .. ..	390 0 0
5	Business Premises	35 0 0			
	Total ..	2905 0 0		Total ..	2905 0 0

It must also be explained, that while the foregoing examples of journalizing give the transactions in chronological order, yet that, in practice, it is sometimes found advantageous to journalize certain of the day books periodically, and to classify the details in the Journal, according to the ledger accounts affected thereby, instead of adhering to the order of date. It will, however, be better to postpone giving illustration of a classified Journal until after the student has been practised in the forms already given—his mastering of which will, in fact, enable him to understand and form a classified Journal without any other special instruction.

And, for the same reason, the author has given only what is technically called *the entry*, without what is called the *narration*, in the foregoing illustrations; for the narration is in no sense needed, in teaching the *principle* of journalizing. But it may now be well to give, as an example, the following Journal entry *with* narration, viz.—

	June 30.	£ s. d.	£ s. d.
41	Interest Account .. .. . Dr.	12 0 0	
90	To John Thompson .. .. .		12 0 0
	<i>For Half-year's interest, due this day, on £400, at 6 per cent. per annum.</i>		

In the foregoing case the Journal is the book of original record of the merchant's indebtedness, for interest, to John Thompson; and it is therefore necessary

to state or *narrate* therein, with fulness and clearness enough to be understood at any future time, apart from any aid of memory, the particulars of such indebtedness.

Every narration, then, is simply the explanatory particulars of the fact or transaction to which the entry relates.

It may here be added that one valuable use of a Journal is to summarize transactions, and save time, as well as space in the ledger, as shown in the preceding illustration of finishing entries, and as carried out in classified Journals; in connection with which a term is employed which almost always proves a very obstinate difficulty to learners.

The technical expression here referred to is that of Sundries Dr. to —; or — Cr. by Sundries; or, more perplexing still, "Sundries Dr. to Sundries."

Now, first of all, the student must distinctly understand that there is no account in the ledger for "Sundries" to which the above expression refers. It is simply a convenient collective term which is used to signify that two or more accounts have been debited to one and the same account; or that one and the same account has been credited by two or more other accounts; or that several accounts have been debited, collectively, to several other accounts, which have also been credited collectively.

## EXAMPLE 1.

						£	s.	d.	£	s.	d.
24	Sugar	..	..	..	Dr.	87	10	0			
	To Sundries, viz.—										
26	„ Freight, &c.	..	..	..					15	10	0
12	„ J. Man	..	..	..					10	0	0
28	„ Charges a/c.	..	..	..					2	0	0
29	„ Commission a/c,	..	..	..					10	0	0

Here the student will perceive that there is no account in the ledger for Sundries; this term being used solely for the purpose of entering 'To Sundries,' in the in the sugar account, instead of making four separate debit entries in it for Freight, J. Man, Charges Account, and Commission Account.

It is, however, not essential that 'Sundries' should be *expressed* in the Journal; and, on p. 99, it is omitted.

## EXAMPLE 2.

						£	s.	d.	£	s.	d.
2	Cash	..	..	..	Cr.				150	0	0
	By Sundries, viz.—										
9	„ W. Jones	..	..	..		80	0	0			
10	„ John Thompson	..	..	..		40	0	0			
11	„ Samuel Austin	..	..	..		30	0	0			

This example does not call for any further explanation.

## EXAMPLE 3.

		£ s. d.	£ s. d.
Sundries	Dr. to Sundries.		
Sundry a/cs. . . . .	Dr.	5800 0 0	
For Balances, per Balance Sheet	..		
Cash a/c. . . . .	Dr.	942 0 0	
For Balance in hand	..		
To Sundry a/cs.—			
For Balances to their Credit	..		3280 0 0
„ John Wilson, for his Share of Capital	..		1731 0 0
„ James Gair, do.	..		1781 0 0
		6742 0 0	6742 0 0

The peculiarity of Example 3 is its omission of the particular debit of each particular credit. This is justified, however, by the fact that the debits and credits consist respectively of the whole of the balances on both sides of a balanced account. It had been proved that the total of the debits was equal to the total of the credits; and, as there was no object to be attained by any further entry in the Journal, the above mode of journalizing the balances was adopted, as being the simplest, safest, and most economical course.

And now, lest the student should be confused by so many varieties of form and plan, and distracted from the path he should pursue to attain his object, the author would strongly urge on him to study first, and with thoroughness, the modern forms of Journal, as illustrated

on pp. 95 and 99—and also, (though it is with regret that he recognises this necessity to, as it were, teach error, as a necessary evil,) the Italian form, as given on folio 98.

#### EXERCISE 4.

*The student must here perform Exercises, as in the Appendix, according to the directions there given.*

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#### SECTION II.

##### *Sub-divisions of the Day Book.*

1. For Cash, - - The Cash Book.
2. „ Bills, - - The Bill Book.
3. „ Purchases,- The Bought Book, or Invoice Book, or Goods-in Book.
4. „ Sales, - - The Day Book, or Sales Book, or Goods-out Book.
5. „ Sundries, - The Journal, if no special book is used.

#### THE CASH BOOK.

The student who has performed the exercises which heretofore have been prescribed will have perceived that there are only two *classes* of books used in book-keeping, viz.—



1. The day book, or chronological record ;
2. The ledger, or classification of the day book :

for only these have been required for recording and exhibiting the effect of the transactions comprised in the exercises—the journal, in its chronological form, being a day book, and, in its classified form, a sub-ledger.

But the *number* of books ordinarily used in business greatly exceeds two.

This is due to the fact of its having been found convenient to subdivide the day book, and also the ledger, but more especially the day book.

It was first in connection with his cash that the merchant found it inconvenient to record all his transactions in his general day book ; for his desire to know daily whether his cash on hand was what it ought to be, made it necessary to keep his cash account posted up every day, whether the rest of his accounts were written up or not ; or else he had to keep a separate account of his cash for that purpose.

Now the former of these two courses required his cash transactions to be *twice*, and the latter one *thrice* written out in full—to which there was not only the obvious objection of its doubling or tripling the labour, but also that of the increased danger of error which attends every additional process of copying accounts.

Therefore, instead of recording his cash transactions in his general day book, and afterwards posting them into his ledger, as in the foregoing illustrations, he opened a separate day book for them.

This he called his **Cash Book**.

And, as it was necessary, for his object, to record his receipts on the one side, and his payments on the other side, therefore, in his Cash Book, as in his ledger, he debited his cash account with his receipts, and credited it with his payments.

And now his Cash Book was at once a day book and a ledger—a day book in respect of its being his daily record of his receipts and payments of money; and a ledger in respect of all his cash transactions being therein collected, in the form of a ledger account for cash.

Still it was necessary, for logical completeness, that his general ledger should contain his cash account, so that any balance of cash on hand might therein appear as an asset, and be taken therefrom into his balance sheet.

But it was not necessary, in posting his cash book into his ledger, *to transcribe its details*. It was enough to post the totals. Thus the labour, loss of time, and danger of error, hereinbefore alluded to, were altogether avoided.

And this great advantage of saving labour, and diminishing liability to error, by means of bringing together the details in a day book, and posting only the totals into the ledger, soon led to the adoption of other

### THE CASH BOOK, IN

FORM I, *which is, perhaps, more commonly used than*

Dr.		CASH.					
Fo: Date.							
Jan. 1.	To	Balance in hand	..	..	..	£810	0 0
5 "	2.	" Union Bank	..	..	..	208	6 9
2 "	3.	" W. James	..	..	..	181	2 7
3 "	5.	" J. Earp	..	..	..	40	1 9
4 "	6.	" E. Wilks	..	..	..	365	8 1
						£1,104	19 2
" 12.	"	Balance	..	..	..	£100	8 8

The most noticeable feature of the foregoing form is the manner in which payments made by means of bankers' cheques are entered in it, viz: as if the amount thereof were first received from the bank, in cash, as shown on the debit side, and then paid away, in cash, as shown on the credit side.

For example, a cheque for £208 6s. 9d. was paid away, on Jan. 2, to W. Wilson, who, on the same day, got it cashed at the bank; and this is entered as if the merchant himself had received £208 6s. 9d. from his bank, on Jan. 2, and had then paid away that amount to W. Wilson.

arrangements, in extension of its utility. Accordingly, seven forms of Cash Book have been devised, and obtained acceptance; and it will now be useful to the learner to study the following illustrations thereof.

### SEVEN DIFFERENT FORMS.

*any other form, but is not the most convenient one.*

Fo: Date.		CONTRA.				Cr.	
5	Jan. 2.	By Union Bank	..	..	..	£100	0 0
6	" "	" W. Wilson	..	..	..	208	6 9
7	" 6.	" J. Searle	..	..	..	50	8 6
5	" "	" Union Bank	..	..	..	365	8 1
8	" 12.	" W. May	..	..	..	280	7 2
"	" "	" Balance	..	..	..	100	8 8
						<u>£1,104</u>	<u>19 2</u>

So, also, as to £365 8s. 1d., which was paid into the merchant's account at the Union bank, by E. Wilks, on Jan. 6, it is entered in the Cash Book as if the merchant had himself received that amount from Wilks, and had thereupon paid it into his bank.

When the above form of Cash Book is used it is necessary to open a bank account in the ledger, and to post each of the bank transactions separately from the Cash Book.

The above stated balances, on Jan. 1, and Jan. 12, do not include cash at the bank.

FORM 2, *which treats cash in the office, and*

Dr.		CASH.					
For:	Date.						
1	Jan. 1.	To Capital	..	..	..	£1,510	0 0
2	" 3.	" W. James	..	..	..	181	2 7
3	" 5.	" J. Earp	..	..	..	40	1 9
4	" 6.	" E. Wilks	..	..	..	365	8 1
						£2,096	12 5
"	12.	" Balance	..	..	..	£1,557	10 0

There is no bank account in the ledger, when this form is used; and the balance of cash includes cash at the bank, as well as cash in hand. In other words, on

FORM 3, *which distinguishes office and bank, and shows*

Dr.		CASH.					
For:	Date.					Recd. by Bankers.	At Office.
1	Jan. 1.	To Capital..	..	..	£1,200	0 0	£310 0 0
"	2.	" Cash ..	..	..	100	0 0	
2	" 3.	" W. James	..	..			181 2 7
3	" 5.	" J. Earp	..	..			40 1 9
4	" 6.	" E. Wilks	..	..	365	8 1	
						£1,665	8 1
						£531	4 4
"	12.	" Balance	..	..	£1,457	1 4	£100 8 8

The above, a very convenient form, shows bank receipts separate from office receipts, and bank payments separate from office payments; and, while saving much time in posting, it has also the great advantage of always showing the state of the *bank* balance side by side with that of the cashier's or *office* balance.

*cash at bank, as forming only one account.*

For: Date.	CONTRA.	Cr.
6 Jan. 2. By W. Wilson, per cheque .. ..		£208 6 9
7 " 6. " J. Searle .. ..		50 8 6
8 " 12. " W. May .. ..		280 7 2
" " " Balance .. ..		1,557 10 0
		<u>£2,096 12 5</u>

Jan. 1, £1,200 was at the bank, and £310 at the office;  
and, on Jan. 12, £1,457 1s. 4d. was at the bank, and  
£100 8s. 8d. at the office.

*the totals of each, ready for posting into the ledger.*

For: Date.	CONTRA.	Paid by Bankers.	At Office.	Cr.
5 Jan. 2. By Union Bank .. ..			£100 0 0	
6 " " " W. Wilson .. ..		£208 6 9		
7 " 6. " J. Searle .. ..			50 8 6	
8 " 12. " W. May .. ..			280 7 2	
" " " Balance .. ..		1,457 1 4	100 8 8	
		<u>£1,665 8 1</u>	<u>£581 4 4</u>	

The student must especially notice (and compare it with forms 1 and 4), that the bankers' receipts are debited, and their payments credited.

And that on cash being sent from the office to the bank, the office is credited and bank debited therewith.

FORM 4, *showing a different*

Dr.		CASH.	Received from the Bank.	From Debtors.
For: Date.				
Jan. 1.	To Capital .. ..	..	..	£1,510 0 0
5 "	2. " Union Bank .. ..	..	£208 6 9	
2 "	3. " W. James .. ..	..		181 2 7
3 "	5. " J. Earp .. ..	..		40 1 9
4 "	6. " E. Wilks .. ..	..		865 8 1
	" " " Bank Balance .. ..	..	1,457 1 4	
			<u>£1,665 8 1</u>	<u>£2,096 12 5</u>
	" 12. " Balance .. ..	..	..	£1,557 10 0

The student will notice that receipts *from* the bank are herein entered on the debit side, and payments *into* the bank on the credit side, as in form No. 1.

FORM 5, *which separates bank and office cash in the*

Dr.		CASH.	At Bank.	At Office.
For: Date.				
1 Jan. 1.	To Capital .. ..	..	£1,200 0 0	£310 0 0
2 "	3. " W. James .. ..	..		181 2 7
3 "	5. " J. Earp .. ..	..		40 1 9
4 "	6. " E. Wilks .. ..	..	865 8 1	
				<u>1,565 8 1</u>
				<u>£2,096 12 5</u>
	" 12. " Balance .. ..	..	..	£1,557 10 0

The above form renders it unnecessary to open a

*arrangement of the bank transactions.*

		CONTRA.		Paid			
Fo: Date.				into Bank.		To Creditors.	
5	Jan. 1. By Balance ..	..	£1,200	0	0		
6	„ 2. „ Union Bank ..	..	100	0	0		
7	„ „ „ W. Wilson ..	..				£208	6 9
8	„ 6. „ J. Searle ..	..				50	8 6
5	„ „ „ Union Bank ..	..	865	8	1		
8	„ 12. „ W. May ..	..				280	7 2
	„ „ „ Balance ..	..				1,557	10 0
			£1,665	8	1	£2,096	12 5
<hr/>							
	„ 12. „ Balance ..	..	£1,457	1	4		

He will also see that this form shows, on one side, balance at bank; and, on the other side, the total of balances in hand and at the bank.

*Cash Book, but only to unite them in the totals.*

Fo: Date.	CONTRA.		Cr.	
			At Bank.	At Office.
6 Jan. 2. By W. Wilson .. ..	..	..	£208 6 9	
7 „ 6. „ J. Searle .. ..	..	..		£50 8 6
8 „ 12. „ W. May .. ..	..	..		280 7 2
			208 6 9	
„ 12. „ Balance .. ..	..	..		1,557 10 0
			£2,096	12 5

bank account in the ledger.



FORM 6, which may be used where everything  
payments are

Dr.		CASH.			
For:	Date.			From the Bank.	From Debtors.
2	Apl. 1.	To James Jones	..		£48 7 2
4	" 4.	" H. Smith	..		15 9 8
6	" 9.	" City Bank	..	£180 11 2	
"	" 11.	" " "	..	10 0 0	
				£190 11 2	£63 16 10

## FORM 7, giving

Dr.		CASH.				
Fo: Date.			Discounts allowed to Debtors.	Received at office from Debtors.	Received by Bankers.	
5	Jan. 6.	To James James	£0 2 6	£4 17 6		
8	" 9.	" John Hughes	0 10 0			10 0 0
9	" 29.	" James George	5 0 0			95 0 0
7	" "	" Thomas Hirst	0 0 3	0 19 0		
			£5 12 9	£5 16 6	£105	0 0
Feb. 1. " Balance			.. ..	£4 11 8	£73	15 0

Whatever the form of the Cash Book is, columns  
for discounts may be added to it, as above shown.

In posting the debits to their accounts in the  
ledger, the above-named debtors must be respectively  
credited with the discount allowed to them, as well as  
with the actual cash received from them; as also, on the

*received is paid into the bank, and all made by cheques.*

CONTRA.				Cr.	
For: Date.				To the Bank.	To Creditors.
6 Apl. 1.	By City Bank	.. ..	£48 7 2		
5 " 4.	" " "	.. ..	15 9 8		
9 " 9.	" F. Williams	.. ..		£180 11 2	
" " 31.	" Petty Cash	.. ..		10 0 0	
				<u>£63 16 10</u>	<u>£190 11 2</u>

*columns for discounts.*

CONTRA.				Cr.	
For: Date.		Discounts allowed by Creditors.	Paid at office to Crs. and for expenses.	Paid by Bankers.	
4 Jan. 10.	By John Gates ..				
6 "	12. " Simon Carr ..	£0 4 9	£1 5 8		
3 "	" " Richard Hinson	1 15 0		31 5 0	
" "	31. " Balance ..		4 11 8	73 15 0	
		£1 19 9	£5 16 6	£105 0 0	

other side, the creditors must be debited, in the ledger accounts, with the discount allowed *by* them, as well as the cash paid to them.

The totals of the discounts must respectively be carried, through the journal, to a discount account in the ledger.

As already stated, whenever separate columns are appropriated in the Cash Book to transactions of the same kind, that arrangement opens in it as many ledger accounts as there are kinds of transactions classified therein; and renders it practicable to balance them within the Cash Book, and to carry the balances straight to balance account, or profit and loss account, just as the balance of cash on hand is carried direct to balance account, by some practitioners, in order to avoid opening a cash account in the ledger: but, although the result would be correct, if each of the balances were unfailingly posted to balance, or profit and loss (as the case might require), yet the author cannot recommend that any account should thus be omitted from its proper place in the ledger; for, from the fact of the Cash Book (or any other day book) not being recognized as a ledger, it would always be attended with a degree of *avoidable* danger of one or other of such accounts being lost sight of, on the books being balanced. Accordingly every classified account in a day book should be carried to a corresponding account in the ledger, to which there should be posted, *not its balance*, but the periodical totals of its debits and credits; and these should be passed through the journal, in the manner hereinbefore explained.

It may here be stated that there is no objection, *in principle*, to having as many columns in the Cash Book as are required for classifying, or ledgerizing, all the entries comprised therein; but, *in practice*, it is found

unnecessary, or inconvenient, to have more than two or three on each side; and therefore the latter number is rarely exceeded.

But there is another mode in which the classification of receipts and payments is aided, and great saving of time and space effected, viz: by means of what are called **Subsidiary Books**.

Subsidiary Cash Books are used either to relieve the general Cash Book of numerous small details; or to enable several persons to act simultaneously, as cashiers, in the same establishment; or to bring together all receipts, or payments, belonging to the same account.

1. The Petty Cash Book, *e.g.*, contains the details of petty expenses, of which only the weekly, monthly, or other periodical total is entered in the general Cash Book.

2. The Daily Cash Book of each salesman, or sub-cashier, in an extensive retail business, *e.g.* is subsidiary to the Cash Book of the chief cashier, to whom each of them has to give in his account, and balance in hand, at the close of the day.

3. And the Wages Book, or Postage Book, *e.g.*, brings payments of the same nature together, in a separate book, whence the total is periodically transferred to the general Cash Book.

While speaking of subsidiary Cash Books the importance of a banking account, kept in such form as to show the *available* as well as the *actual* balance in the bank, may be fitly urged.

For, seeing that the bankers' pass book, when it is posted up, shows the *actual* balance, it is necessary to have, either by means of a columnar arrangement of the Cash Book, as shown on pp. 112, 113, or by having a subsidiary book for the purpose, an account which exhibits, not simply what has been paid by the bank, but also *every order to pay* which has been addressed to the bank. In other words, the amount of all cheques which have been issued, and not presented for payment, must be deducted from the actual balance, in order to show exactly what there is at the bank which may rightly be drawn upon.

As already advised, with reference to the journal, so also now, with regard to the Cash Book, the student must especially familiarize himself with the forms more commonly used; after which he will be in a position to judge of the utility of forms for special requirements.

#### THE BILL BOOK.

Before describing the Bill Book, it is desirable that the student should be made somewhat acquainted with the nature, use, and forms of Bills,—meaning thereby

bills of exchange and promissory notes, these being alike in their force and effect, though differing in form,—and in the uses to which they are respectively applied.

A **Promissory Note**, in its simplest form, is a written and unconditional *promise* of one person to pay to another a specified sum ; as, for example—

£400 0 0

LIVERPOOL, Jan. 4, 1870.

On demand I promise to pay to Thomas Wilson four hundred pounds.

JAMES JOHNSON.

And a **Bill of Exchange**, in its simplest form, is a written and unconditional *order*, addressed by one person to another, directing him to pay to a *third person* a specified sum ; as, for example—

£400 0 0

LIVERPOOL, Jan. 4, 1870.

On demand pay to John Jackson four hundred pounds.

To JAMES JOHNSON.


THOMAS WILSON.

So that the *form* of a Note is as if it were drawn and signed by a debtor, to be given to a creditor—*which accords with its nature and object* ; and of a Bill, as if it were drawn and signed by a creditor, and addressed to a debtor, ordering him to pay to another a specified sum—which accords with the *original* nature and object of Bills of Exchange.

For, at the first, Bills of Exchange were used for *transferring debts*, as a convenient means of settling foreign accounts.

As, for example, John Brown, of Calcutta, being indebted to Thomas Jones, of London, in £1,000; and having to receive that amount from Edward Robinson, of Bristol; instead of forwarding cash from Calcutta to London, to settle with Jones, and requiring cash to be forwarded to himself from Bristol, to settle with Robinson, took the simpler and readier means of settling accounts between him and them, by transferring to Jones the debt due from Robinson—thereby avoiding considerable risk, trouble and delay, and loss of interest too; his mode of transferring the said debt consisting of his writing an order, which he addressed to Robinson, directing him to pay £1,000 to Jones, but which he sent to Jones, who thereupon became entitled at law, as *holder* of the Bill, to demand, sue for, and receive its *contents* from Jones; and, on failure of Jones, then from Brown, as *maker* of the Bill.

But, at last, their great utility, arising from valuable properties which they originally possessed, or subsequently acquired, whether from the custom of merchants, the interpretation of courts of law, or direct legislation, led to a much more extensive adoption of Bills of Exchange, viz: for *inland* trade as well as foreign; to *secure* as well as to transfer debts; and for other uses which need not here be specified.



The most remarkable of these properties of Bills, and also of Notes, is the manner in which they can be transferred, *when written in the requisite form*, from one to another, either by a simple endorsement, or by delivery, conveying to the *transferee*, or legal holder, the rights of the *transferor*, or previous legal holder.

This *negotiability*, as it is called, renders them *saleable*, just as are goods of intrinsic value; it being, however, the repute and credit of the names attached to them, and the prospect of duly receiving their nominal value, which determines their market value.

Negotiability is not, however, an attendant property of every bill and note. It must be conferred, in every separate case, by introducing into the document, on its being drawn, certain words, of that effect, making it payable either "to bearer," or "to order," as may be agreed upon, or as the creditor may determine.

Therefore, as to the forms hereinbefore given, on page 121, since they are without the above mentioned requisites, it follows that all bills and notes made in accordance therewith are not negotiable.

And now it will perhaps be more convenient to submit other information concerning these important aids to commerce, and which the student should become possessed of, in the following orderly form.



1. Bills are of three kinds, viz.—

- a* INLAND BILLS.
- b* FOREIGN “
- c* PROMISSORY NOTES.

2. The person who prepares a Bill is the **drawer**; and the one to whom he addresses it, the **drawee**.

3. After the drawee assents to the Bill, or accepts it, by writing his name across it (see forms hereinafter given), he is called the **acceptor**; and the document itself, which is a **draft** until accepted, is now an **acceptance**, or completed Bill.

4. When the drawee refuses to accept a Draft or Bill, he is said to **dishonour** it.

5. The person who gives the promise, in a Promissory Note, is the **maker** of the note. His position corresponds to that of the acceptor of a Bill.

6. The person to whom the money (or **contents** of the Bill or Note) is to be paid, is the **payee**.

7. The **holder** of a Bill or Note is “the person in actual or constructive possession of it, and entitled to recover its contents from the parties to it.”

8. It is sometimes necessary for the holder, in order to transfer his interest, to write his name across the back

of the Bill or Note. This is called **endorsing** it. The person who thus transfers his interest is the **endorser**, and the one to whom he transfers it the **endorsee**.

9. If two or more persons, not being partners, join in making a promissory note, it is either a *joint*, or a *joint and several* note, according to its form. In the former case, the makers of the note must be sued together, as one party; while, in the latter case, they may either be sued together, or each maker may be separately sued, and for the entire contents, until the holder has recovered the amount due to him. But the one against whom judgment is given may proceed against, and recover from, the other makers their due contribution.

10. Bills are always *joint*, not *several*.

11. Bills may be made payable, *as to time*, as follows, viz.—

- a* At usance; *i.e.* according to the custom and usage of merchants.\*
- b* At sight.
- c* On demand.
- d* At a specified time after sight; as, *e.g.* "60 days after sight."
- e* At a specified time after date; as, *e.g.* "Four months after date."
- f* At a specified time after demand; as, *e.g.* "Three months after demand."

\* This is becoming obsolete.

12. Promissory Notes also may be made payable either at sight, or on demand, or at any specified period after sight, or date, or demand. They may also be made payable by instalments, according to the form hereafter given.

13. When a time is specified, three days are added thereto (in Great Britain), called **days of grace**, and the Bill or Note is not payable before the expiration thereof. But if the last day of grace falls on Sunday, Christmas Day, Good Friday, or other public fast or thanksgiving day, the Bill must be presented on the day before ; and, if not then paid, will be dishonoured.

14. As to *place*, if none be specified, the Bill must be presented to the acceptor at his residence, or place of business ; or, if he have neither, then to him personally. It is usual however to make Bills payable at a specified place. This is called *domiciling* them. Generally they are made payable at a bank, and when it is desired to make them payable at the specified place, "and there only," these last quoted words are inserted in the acceptance, as follows, *e.g.* "Accepted payable at the London and Westminster Bank, and there only."

15. When the acceptor makes the bill payable at his bankers, such acceptance becomes an order to the banker to pay it. The drawer, however, often requires

the bill to be made payable at a London Bank, because bills so drawn can be more readily negotiated. In such case, when the drawer's bankers are in the country, it is usual to insert their London agents in the bill, as its domicile; and it then becomes necessary, on the bill arriving at maturity, to remit the amount of it to the London Bank, *but through a bank*, on the day when the bill becomes due; or for the country bank to **advise** the London bank to pay it.

16. On payment of a bill, the person paying it should always require the bill to be given up to him; and, when only a part is paid on account, a receipt or acknowledgment thereof should be written on the bill, to prevent its being negotiated for more than remains owing of its contents. Such receipts, whether for the whole or for a part, are usually written on the back of bills.

17. The alteration of any material part of a bill or note, after it is drawn and accepted, renders it void. This is sometimes the case, even if all the parties concerned consent thereto in writing on the bill or note; as, *e.g.*, when the stamp is rendered thereby inefficient. It is therefore highly important that none but those who are fully conversant with the legal effect of it should make any alteration, even though it seems to be an *immaterial one*, or receive any bill or note with any such alteration in it.

18. Every bill or note is presumed to have been given for valuable consideration, and it is usual to insert "value received" in the document, as follows, viz.—

Four months after date pay to me or order four hundred pounds, *value received*:

but it is unnecessary to do so, because it depends, not on the form of the document, but on the fact of there having or not having been a legal and sufficient consideration, whether the holder can recover or not in an action on the bill.

19. Persons suing on contracts or promises entered into orally or in writing, but not under seal, must prove consideration to have been given; but, as to bills or notes, it is, on the contrary, for the person sued to prove that no consideration has passed, in order to escape liability.

20. If no consideration passed between the drawer and acceptor of a bill (as *e.g.* in accommodation bills), then, in any action thereon between the two parties, if the defendant prove that the plaintiff gave no consideration, the latter will thereby be stopped in his action, even though the bill is expressed as given for value received.

21. But if a bill so given without consideration be transferred by its holder, for valuable consideration, to a

third person, the latter is entitled to recover from the acceptor, if he received the bill without notice of no consideration having passed to the acceptor; and he is also entitled to sue the transferor and all other endorsers, including the drawer.

22. An illegal consideration makes the bill invalid.

23. A bill has the following advantages :—

- a* It fixes the amount owing beyond dispute.
- b* And the time when it must be paid.
- c* Is negotiable, as explained.
- d* Thereby enables any of the parties to obtain extended credit legitimately.
- e* Transfers value from one to another without transferring money.
- f* Has quicker legal remedy than an ordinary simple contract claim.

24. Foreign bills are usually drawn in sets of two or three, and sent by different routes or ships, so that if one is lost or delayed, inconvenience may be prevented by the arrival of another of the set.

25. Where a set is drawn, it is the first to hand which has legal efficiency, the rest being thereby made void.

26. Forms of Inland and Foreign Bills, and Promissory Notes, are given on pp. 135-137.

27. When a foreign bill is transferred if part of a set the transferee takes the set.

28. Bills payable at a date which commences to run "at sight," ought to be presented for acceptance without unreasonable delay; the drawee ought to accept or decline to accept within twenty-four hours after sight; and, in accepting, he should write, before his signature, the date of acceptance, because this fixes the bill's maturity—*i.e.*, when it will have to be honoured or taken up by payment of its amount.

29. *Month*, in relation to bills, always means a calendar month; therefore a bill drawn one month after January 31st becomes due on February 28th; or, in leap year, on February 29th; *plus* the days of grace.

30. Bills must always be drawn on stamps of the proper value, for they cannot subsequently be stamped; and, if insufficiently stamped, cannot be received in evidence in any of the Courts. Being over-stamped does not weaken their validity.

31. Minors, married women, and persons of defective intellect, are legally incapable of drawing, accepting, or endorsing bills or notes; but an innocent holder for value of any such bill or note can recover from any others whose names are on it, whether as drawers or endorsers.

32. "Per procuration" is where an agent, under proper authority (either oral or written), draws, accepts, or endorses a bill or note. To protect himself from personal liability, the agent must express in the acceptance that he is signing for another, and he is bound to produce or prove his authority when any holder requires him to do so; it being equally incumbent on the person taking any per procuration signature to satisfy himself of the extent of the agent's authority.

33. "Supra protest" acceptance is where a third party, after a bill has been protested for non-acceptance, takes it up, writing on it "Accepted supra protest, in honour of A. B.," the object being to accommodate the drawer and save him from the inconvenience, disadvantage, &c., which might result to his detriment from a dishonoured bill.

34. When the endorsement of a bill is simply the signature of the endorser, it is a *blank* endorsement, and the bill becomes payable to the holder or bearer, delivery being of itself an efficient transfer to a holder for value.

35. When the endorsement is "Pay A. B., or pay to the order of A. B.," it is a *special* endorsement, and cannot then be paid, transferred, or discharged without the endorsement of the party to whom it has been so endorsed.



36. Endorsement renders the endorser liable to pay if the acceptor fail ; but he can recover from all *precedent* parties to the bill with the exception next mentioned.

37. If endorsed " Pay A. B. or his order, *without recourse to me,*" the endorser in that form avoids liability to those who follow him as endorsees or holders.


When a bill is payable at sight, or at a particular place *and there only* (called a *qualified acceptance*), it *must* be presented for payment.

But, in general, presentment for payment is not necessary in order to charge the acceptor of a bill or the maker of a note ; for these can be sued thereon at any time after it becomes due, whether it has been presented or not.

For it is to make *the other* parties liable—viz., the drawer and endorsers of a bill, or the endorsers of a note, that it must be presented.

Therefore the holder ought, in general, to cause the bill or note to be presented on the day and at the place on which it falls due ; and within ordinary business hours.

Though made payable at a bank, the holder is not bound to present it there, he being entitled to present it



instead at the acceptor's house or place of business, or (having none) to him personally. But the holder would be indiscreet in not having it presented at the bank, for there might be funds available there on the day, and none there or elsewhere subsequently.

The holder cannot sue the drawer and endorsers of a bill or the endorsers of a note, unless he has had notice of its dishonour sent to each of them. Generally, the notice should be *immediate*; and *written* is better than *oral* notice.

It is not necessary to give notice to the acceptor of a bill or the maker of a note.

It is a remarkable fact that noting and notarial protest of bills and notes are not legal requisites in this country. Yet almost every dishonoured bill is sent to a notary, to be again presented, and noted, thus putting the parties who ultimately have to pay to unnecessary and sometimes large loss,\* in proportion to the debt.

\* Recently, through a clerical error, numerous pro notes for a dividend, many of them of small amount, were made payable at Messrs. Waring Bros., 5, Silvery Road, instead of Messrs. Waring Bros., Silvery Road Works. The works were well known. All except clerks from local banks went to the works. But the bank clerks went to No. 5, being a public-house; and, being irresponsible, took no further trouble, but returned the bills dishonoured. Each bank then sent its notes to its notary, who sent out *his* clerk, not by train, *but on a car* (over four miles), to re-present the notes to *the makers* of the notes, none of these notes being endorsed, except to the banks. One notary had seven or eight of them, of which some were for only a few shillings each. As he charged 5s. cab fare *in each case*, besides his ordinary fees, it proved very hard lines. And for all this notarial trouble and expense, *not the slightest obligation existed, nor could the slightest advantage result from it!*

It should scarcely be necessary to say that bills and notes are not cash, and ought not to appear among cash receipts and payments ; but the fact that many book-keepers *do* treat them as cash, calls forth this condemnation of their erroneous practice.

It is only the cash received for them, and the cash paid for them, which ought to be entered in the cash-book ; for the receiving or paying away of bills only needs recording just as the receiving or parting with sugar is recorded, *i.e.*, as to bills, in the bills receivable and bills payable books ; and, as to sugar, in the goods bought book and the goods sold book.

The person, B., from whom a bill receivable is received by A., is credited therewith in a personal account in B.'s name in A.'s ledger ; and A., as receiver, debits himself therewith in a property account in his ledger, called " Bills receivable."

When A. pays away a bill to C., the latter is debited therewith in a personal account in C.'s name in A.'s ledger ; and A. credits himself therewith in a minus property account in his ledger, called " Bills payable."

If a bill receivable is returned unpaid, B.'s account must be debited and bills receivable credited with its amount ; and, at the same time, B. must be debited, and expenses account credited, with the charges which

have been paid or incurred in connection with the returned bill, viz., discount, bank charges, &c.

Bills receivable are assets, and bills payable liabilities; and must be so shown in the balance-sheet.

Bills payable on demand are not allowed days of grace.

The following are forms of inland and foreign bills and promissory notes.

1. *Promissory Note on Demand, domiciled, and bearing interest.*

£100 0 0.

Liverpool, 1st January, 1883.

On demand, I promise to pay to John Smith, or his order, One Hundred Pounds, value received, at 35, Castle Street, Liverpool, with interest at the rate of four per cent. per annum.

JAMES JEFFERSON.

2. *Joint and several Promissory Note, payable at a fixed date, and domiciled.*

£100 0 0.

Liverpool, 2nd April, 1883.

Four months after date we jointly and severally promise to pay to James Wilson, or order, at the Imperial Bank, London, the sum of One Hundred Pounds, value received.

JAMES JEFFERSON.

JONATHAN EVANS.

3. *Joint and several Promissory Note of more than two persons, payable by instalments.*

£1,000 0 0.

Liverpool, 2nd March, 1883.

We, or any two, three, four, or more of us, jointly and severally promise to pay to the Liverpool and London Loan Association Limited, the sum of One Thousand Pounds, value received, at its office, 41, Extorting Street, as follows, viz. :—

Six Months after date	£100	0	0	Thirty-six Months after date	£100	0	0
Twelve Months "	100	0	0	Forty-two "	"	100	0
Eighteen "	"	100	0	Forty-eight "	"	100	0
Twenty-four "	"	100	0	Fifty-four "	"	100	0
Thirty "	"	100	0	Sixty "	"	100	0

And if default be made in payment of any of the said instalments, or [of any part thereof, then the whole of the said sum of One Thousand Pounds, or so much thereof as shall remain unpaid, shall forthwith become due and payable, together with interest thereon from the date of default until payment after the rate of sixpence per pound per month.

ABRAHAM SPOONBILL,  
JOHN PYMAN,  
ISAAC GIBSON,

JOSEPH GOSLING,  
CHARLES SURFACE,  
SIMON SIMPLE.

4. *Inland Bill, payable on demand.*

£100 0 0.

Liverpool, 1st January, 1883.

On demand, pay to me or my order [or to A. B. or his order]  
One Hundred Pounds, value received.

To Mr. James Jefferson,  
80, Widnes Street, Liverpool.

JOHN SMITH.

This, being made on demand, does not need acceptance.

5. *Inland Bill, payable at a fixed date, and domiciled.*

£100 0 0.

Liverpool, 2nd April, 1883.

Four months after date pay to me, or my order, the sum of One Hundred Pounds, value received, in London.

To Messrs. Jefferson and Evans,  
1, Wilton Street, Leeds.

JAMES WILSON.

Across the face of which the drawees must write  
"Accepted, payable at the [Imperial Bank,] London,  
Jefferson and Evans."

6. *Foreign Bill.*

£4,000 0 0

New York, 2nd May, 1883.

Sixty Days after sight [or Three Months after date] pay this, my first of Exchange (second and third of same tenor and date unpaid), to the order of James and William Brown, the sum of Four Thousand Pounds, value received.

To Messrs. John Stuart & Co.,  
Merchants, Liverpool.

ELIHU VANDERDECKER.

It is prudent to use established forms; yet any words conveying a distinct promise to pay, if on paper duly stamped, makes a promissory note, as, *e. g.*, "I undertake to *account* to A. B, or order, for £50"; but if the words do not amount to a promise, or if not duly stamped, the document is only an I O U, or an agreement.

When the parties are bankrupt, the holder may proceed against the estate of each for the whole amount, and take dividends from them until he is paid in full.

The following are forms of bill books :—

## BILLS

Ledger Folio.	Num- bers.	When Received.	Of whom Received.	By whom Drawn.	On whom Drawn.	To whom Payable
		1883.				
8	1	May 4	John James	Himself	George & Co.	Myself
10	2	" 6	George New	Himself	(Pro Note)	Myself
12	3	" 7	S. Smith	Myself	Himself	Myself

## BILLS

Ledger Folio.	Num- bers.	When Accepted.	By whom Drawn.	Place.	To whom Payable
		1883.			
4	1	January 81	F. Wilson	London	Himself
		1884.			
6	2	January 80	A. Thomas	Leeds	James Brown

# RECEIVABLE.

Debit.	Date.	Term.	Due.	Amount.			How disposed of.
	1888.						
Bank,	May 2	4 Months	Sept. 5	150	0	0	Paid to W. Smith, 8th May
don							
Street	" 6	21 Days	May 30	80	0	0	
Liver-	" 7	2 Months	July 10	420	0	0	
ol							

# PAYABLE.

Credit.	Date.	Term.	Due.	Amount.			To whom paid.
	1888.						
son	January 31	1 Month	March 8	250	0	0	
	1884.						
mas	January 30	1 Month	March 8	400	0	0	



### THE PURCHASE BOOK.

Every purchase of merchandise, or of any other property, must be recorded, with its cost, either in the Cash Book, Journal, or Purchase Book.

#### FIRST, OF GOODS BOUGHT ON CREDIT.

If the transactions are few, it is the better plan to record them in the Journal.

If they are numerous, as is the case in every extensive business, it is more convenient to record them in a book used exclusively for purchases, and entitled Purchase Book, Bought Book, Goods-in Book, or Invoice Book.

Every transaction entered in the Purchase Book must be posted therefrom to the credit, in the Ledger, of the person from whom the goods were bought; and either a general or a special goods account or property account must be correspondingly debited therewith.

A general goods account includes all those kinds in which the merchant trades except such as have separate or special Ledger accounts opened for them. A separate account for Sugar, *e.g.*, is a special goods account in the sense of the preceding paragraph.

Sometimes it is more convenient to debit the goods

accounts, not with each transaction separately, but with periodical totals.

When this is done the Purchase Book is not written up from day to day, but weekly, monthly, or quarterly, according to the requirements of the business or the discretion of the proprietor.

In extensive houses of business the monthly arrangement prevails.

This periodical arrangement enables the book-keeper to *classify* the transactions before recording them in the Bought Book. Cotton, *e.g.*, purchased from John Taylor on January 1, 8, 15, 22, 29, can be entered *together* in the Bought Book, and conveyed therefrom to the Ledger by means of one instead of five *postings*.

It is necessary to add that it would be unbusiness-like and improper to leave the Bought Book unwritten for even a week, if there were not some other satisfactory record of the merchant's daily purchases in existence.

It is enough to mention here only one, viz., the Invoices, which should be either on the file, or in a Guard Book.

It is from the Invoices that the Purchase Book is

usually written up. But if the merchant has received goods, or has bound himself to receive and pay for goods of which the invoice has not arrived, he knows the facts from his Order Book, and his Daily Receiving Book, and must enter these goods also in his Bought Book, in order to make his Ledger truly show his property and liabilities.


Sometimes the Guard Book of Invoices is so arranged as of itself to serve all the requirements of a Bought Book; every transaction being conveyed directly into the Ledger therefrom.

The Bought Book is capable of sub-division to any required extent. If, *e.g.*, the merchant trades in silk, cotton, wool, and sugar, making numerous purchases of each, he will probably find it advantageous to have a separate Bought Book for each of those branches of his business.

#### SECONDLY, OF CASH PURCHASES.

It remains to speak of the mode of carrying cash purchases (*i.e.*, when ready money is paid on delivery of the goods) into the Ledger.

The cash paid for them may be posted either to the debit of the goods account, or to the debit of the person from whom they were purchased.



The former course is adopted when it is considered that the opening of personal accounts would not serve any useful purpose; in which case they would prove a waste of time, while increasing the danger of error which attends the more complex process.

It depends on the nature of the business, the number and magnitude of the individual transactions, and other discretionary considerations (which are not difficult to decide), whether it is better to open personal accounts for cash purchases or not.

But, other things being equal, it is certainly better to open personal accounts for *cash* as well as for *credit* purchases, as all can testify who have had laboriously and uncertainly to pick out a long series of such transactions from the goods accounts and cash book.

When personal accounts are opened for cash purchases, the goods bought must be entered in the Bought Book or Journal, and the transactions treated in every respect as if the goods had been bought on credit; and it follows that the cash paid for them must be posted, not to the debit of the goods account, but to the debit of the person supplying the goods.

## FORMS OF PURCHASE BOOKS.

1. *Where there is only one General Goods Account in the Ledger.*

Ledger	From whom purchased, &c.				
Fo.					
	January 1.				
4	James Joseph, Liverpool, Cr.				
	By 40 yds. Velvet, at 12/-	..	..	£24	0 0
	" 18 yds. Silk, at 4/-	..	..	3	12 0
	" 50 yds. Cotton, at 1/-	..	..	2	10 0
	" Wrapper and packing	..	..	0	10 6
					<hr/>
					30 12 6
	March 31.				
6	Thomas George, Bristol, Cr.				
	By 20 rms. Paper, at 10/-	..	..	£10	0 0
	" 6 sets Waverley Novels, at 50/-			15	0 0
					<hr/>
					25 0 0
42	Goods a/c, Dr.	..	..	..	£55 12 6
					<hr/> <hr/>

2. *The same, in the form of a Journal.*

	January 1.				
42	Goods a/c ..	..	..	£55 12	6
4	To James Joseph, Liverpool			£30 12	6
	For 40 yds. Velvet, at 12/-	£24	0 0		
	" 18 yds. Silk, at 4/-	3	12 0		
	" 50 yds. Cotton, at 1/-	2	10 0		
	" Wrapper and packing	0	10 6		
					<hr/>
	March 31.				
6	To Thomas George, Bristol.			25	0 0
	For 20 rms. Paper, at 10/-	£10	0 0		
	" 6 sets Waverley				
	Novels, at 50/-..	15	0 0		
					<hr/>
				£55 12 6	£55 12 6
					<hr/> <hr/>

3. *The same as No. 1, but with separate Ledger Account for each article.*

January 1.			
4	James Joseph, Cr.		£30 12 6
24	By 40 yds. Velvet, at 12/- .. ..	£24 0 0	
28	" 18 " Silk, at 4/- .. ..	3 12 0	
30	" 50 " Cotton, at 1/- .. ..	2 10 0	
54	" Charges a/c, wrapper and packing	0 10 6	

March 31.			
6	Thomas George, Cr.		25 0 0
32	By 20 reams Paper, at 10/- .. ..	10 0 0	
34	" 6 sets Waverley Novels, at 50/- ..	15 0 0	
		<u>£55 12 6</u>	<u>£55 12 6</u>

4. *The same, in Journal form.*

January 1.			
24	Velvet, 40 yds. at 12/-... ..	£24 0 0	
28	Silk, 18 " 4/-... ..	3 12 0	
30	Cotton, 50 " 1/-... ..	2 10 0	
54	Charges, for wrapper and packing ..	0 10 6	
4	To James Joseph.		30 12 6

March 31.			
32	Paper, 20 reams at 10/- .. ..	10 0 0	
34	Books, Waverley Novels, 6 sets, at 50/-	15 0 0	
6	To Thomas George.		25 0 0
		<u>£55 12 6</u>	<u>£55 12 6</u>

5. *Where reference is made to the Invoice, instead of entering full particulars in the Bought Book.*

Fo.	Date.	From whom bought.	No. of invoice inwards.	Velvet.	Silk.	General.
4	Jan. 1	James Joseph	1	24 0 0	3 12 0	2 10 0
6	" 31	Thos. George	15	.. ..	.. ..	25 0 0
8	" "	Henry Wilson	16	18 0 0	9 0 0	15 0 0
J. 6				42 0 0	12 12 0	42 10 0

The foregoing is for special Ledger accounts for velvet and silk, and a General Goods account or Merchandize account for all other goods. The 10s. 6d. for charges might have been apportioned on the face of the invoice, say, *e.g.*, velvet 6s., silk 2s. 6d., and general 2s., and the above entries made £24 6s. od., £3 14s. 6d., and £2 1s. od.; but, when not so disposed of, must be journalized to the debit of Trade Expenses and the credit of James Joseph.

Columns for quantities can be added, as in Form of Sales Book on p. 148, and the totals carried therefrom into the Goods accounts.

#### THE SALES BOOK.

*(Commonly, but incorrectly, called the Day Book.)*

All goods sold on credit are entered in this book

from day to day. It is sometimes entitled the Sold Book, or Goods-out Book.

Every entry ought to be made before the goods are delivered; and, in some cases, at the time of the order being received: as, *e.g.*, on this being taken orally, across the counter, when the entry ought to be so carefully made as to record accurately the exact facts, with all terms agreed upon, leaving nothing material out, and nothing to memory, seeing it is often on this book that the tradesman has to rely to prove his claim under orders entered in it; for, as a book of original entry, it is received as evidence in Courts of Law.

Therefore an erasure ought never to be made in it; for this, through its suspicious appearance, is always unfavourable, and sometimes even causes rejection of the book as unworthy of credence.

The proper mode of correcting an error occurring in a Day Book, is by cancelling the erroneous entry, and giving explanatory statements; and then making such new and correct entry of the transaction as ought originally to have been made thereof.

In a small concern a single Sales Book is enough; but, in larger houses, several are kept, each salesman sometimes having two, so that while one is being posted he may be using the other.



The purchaser is debited with the goods sold to him, and goods account is correspondingly credited.

### FORM OF SALES BOOK.

Fo. 5	Jan. 1	Thomas Jarvis.			
7	"	17 cwt. of Coffee, at £5	£85	0	0
9	"	8 " Tea, at £16	128	0	0
			£213	0	0
			£213	0	0

### Another Form.

Fo.	Date.	Sold to	No. Invs. out.	Quantities,	Coffee.	Tea.
5	Jan. 1	Thos. Jarvis	4	17 cwt. Coffee at £5	£85 0 0	
	"	"	"	8 cwt. Tea at £16		£128 0 0
6	"	4 Ann English	5	14 cwt. Coffee at £6	84 0 0	
J. 2				Total Credit Sales	£169 0 0	£128 0 0

In these forms there are separate Ledger accounts for coffee and for tea.

The student will have observed that much of what has been stated with reference to Purchase Books is applicable to Sales Books.

### THE JOURNAL AS A DAY BOOK.

Every transaction which cannot appropriately be entered in the Cash, Purchase, Sale, or other Special

Day Book, must be *day-booked* in the Journal. *E.g.*—  
 £60 paid by John Thomas to the credit of James  
 Smith, in Smith's account at the Union Bank,\* ought  
 not to be entered in Smith's Cash Book, not having  
 passed directly into Smith's hands, but ought to be  
 journalized as follows, viz. :—

The Union Bank, <i>Dr.</i>	..	£60	0	0'	
To John Thomas	..	..	£60	0	0

And bank interest, commission and charges, should be  
 journalized in the same way.

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#### SUB-DIVISIONS OF THE LEDGER.

The Ledger is capable of sub-division to any re-  
 quired extent. There may, *e.g.*, be one division exclu-  
 sively for goods bought, another for goods sold, another  
 only for customers, and so forth. Whether the accounts  
 be grouped into classes within one volume, having a  
 separate portion of the volume allotted to each class, or  
 each class has a volume to itself, in no way affects the  
 principle of book-keeping. It is a matter of convenience

\* This assumes that Smith's Cash Book is in the more commonly used form,  
 viz., No. 1, ante p. 110; but if with columns for bank transactions, as in Form  
 3, ante p. 112, then the above £60 would properly go into the Cash Book and  
 not have to be entered in the Journal, the entry in the Bank column being, in  
 effect, a Journal entry.

only, and the nature and magnitude of each business indicates the sub-division to be adopted.\*

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#### PRIVATE LEDGER.

The object of a Private Ledger is to prevent the owner's profits, and drawings of cash, being known to his clerks. It includes capital account, current account, and profit and loss accounts. The total of these is carried to the General Ledger, to an account called "Private Ledger," in order to balance the books exclusive of the Private Ledger. Details not being given, it is not possible to make out the results of the business therefrom.

In order to accomplish the object of a Private Ledger a Private Journal must be used for the transactions which are carried into the Private Ledger.

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#### CASH SALES BOOK.

Where there is only one account in the Ledger of goods sold, the totals received for cash sales are carried

\*It is the author's intention to publish a collection of forms, showing the books actually used in various extensive businesses.

daily from the Cash Sales Book into the Cash Book ; and the weekly or monthly total of goods sold into the Credit Sales Book, as shown in the following form, in which the through additions of the inner column afford a check on the totals in the outer column.

Fo.	Jan. 1.	£ s. d.	£ s. d.
	Goods .. .. .	5 6 2	
	Do. .. .. .	3 4 8	
	Do., John Smith .. ..	2 6 1	
C.B. 4			10 16 11
	Jan. 4.		
	Goods .. .. .	8 5 0	
C.B. 4			8 5 0
	Jan. 31.		
	Goods .. .. .	4 8 0	
	Do. .. .. .	2 4 0	
C.B. 4			6 12 0
S.B. 2		25 13 11	25 13 11

It is sometimes useful, in a retail business, to keep a record of regular or frequent ready money purchasers, and an index to their purchases. This is effected by writing the customer's name in the Cash Sales Book, as above, in the sale to John Smith ; and, in an alphabetical index, entering opposite his name the year and folio of the transaction ; as, *e.g.*, John Smith, 1883

When there are Special Goods Accounts in the Ledger, the cash sales are *classified* in the Sales Book at the end of each week or month, and the respective totals carried to the Credit Sales Book, as shown in the following form, in which the classified summary gives a check on the accuracy of the outer column totals.

Fo.	Jan. 1.	£ s. d.	£ s. d.
	Silk, 40 yards, at 5/- ..	10 0 0	
	Do., 20 " " 4/- ..	4 0 0	
	Velvet, 100 " " 6/6 ..	33 0 0	
	Do., 50 " " 6/- ..	15 0 0	
C.B. 4			62 0 0
	Jan. 4.		
	Crape, 80 yards, at 4/- ..	16 0 0	
	Silk, 60 " " 5/- ..	15 0 0	
	Velvet, 20 " " 7/- ..	7 0 0	
	Silk, 40 " " 6/- ..	12 0 0	
C.B. 4			50 0 0
	Jan. 31.		
	Cotton, 80 yards, at 2/- ..	8 0 0	
	Do., 40 " " 1/9 ..	8 10 0	
	Crape, 70 " " 3/- ..	10 10 0	
C.B. 4			22 0 0
S.B. 8	Total Silk, 160 yards ..	41 0 0	
S.B. 10	" Velvet, 170 " ..	55 0 0	
S.B. 12	" Crape, 150 " ..	26 10 0	
S.B. 14	" Cotton, 120 " ..	11 10 0	
		184 0 0	184 0 0

When there are several salesmen, as in a retail draper's establishment, each of them gives in to the cashier, with each customer's cash, a duplicate invoice of the goods sold. These are entered in a Cash Sales Book in the following or similar form ; the total being carried into the Cash Book at the end of each day.

Fo.	Sales- man.	No. 1.			No. 2.			No. 3.			No. 4.			No. 5.			Tot		
	Date.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.
CB6	Jan. 1	4	2	3	0	7	6	5	10	0	4	1	0	0	0	6			
	"	0	6	8	0	8	2	6	8	0	3	3	0	0	3	0			
	"	0	2	4	0	3	0	..	..	0	10	6	0	0	0	2			
	"	8	4	0	0	5	9	..	..	..	..	0	4	4					
	"	..	..	0	2	4	..	..	..	..	0	3	6						
	"	..	..	0	3	0	..	..	..	..	..	..	..						
		12	15	3	1	9	9	11	18	0	7	14	6	0	11	6	34	9	0

Each shopman's sales are afterwards classified in a *dissecting* book, under desired heads for Special Goods Accounts, and entered in a *summary* book, showing the total sales for the day of each class of goods.

#### PETTY CASH BOOK.

FORM I.—Requiring only a Memorandum Book.

1888.

April 1.	Car Fare ... ..	£0 2 0
" 8.	Postage Stamps... ..	0 10
" 10.	Telegram ... ..	0 1
" 19.	Messenger ... ..	0 2 0
" 21.	Packing Paper ... ..	0 1 6
" 31.	Advertisements ... ..	0 7 6

Entered in C.B. Fo. 8 ... .. £1 4 0

FORM 2.—Where a cheque is given to the cashier from time to time, as required.

<i>Dr.</i>	PETTY CASH.	<i>Cr.</i>	
1888.	1888.		
April 1. To Cash ... ..	£5 0 0	April 1. By Cab Fares ..	£0 15 0
" 4. " Do. ... ..	5 0 0	" 2. " Postages ..	2 10 0
" 10. " Do. ... ..	5 0 0	" 3. " Bill Stamp ..	1 0 0
		" 4. " Refreshments for Clerks ..	0 15 0
		" 6. " Railway Fare..	4 4 0
		" 10. " Witnesses ..	2 7 0
		" 31. Journal Fo. 17. ..	11 11 0
		May 1. By Balance ..	8 9 0
	<u>£15 0 0</u>		<u>£15 0 0</u>
May 1. To balance ..	£3 9 0		

The Debits are posted into the Ledger from the Cash Book, and not from the above Petty Cash Book ; and the Credits are carried to the Ledger by the above Journal entry. The balance in hand is shown in the Ledger Petty Cash Account.

## RETURNS BOOK.

When a tradesman returns goods, or bags, cases, or other packages to the person from whom he bought them, or who has charged him for them, if it be a matter of exceptional occurrence the better course is either to journalize the transaction or to enter it in his Sales Book, as if the goods, &c., had been sold by him. But when returns are of frequent occurrence it is better to have special books for them.

What has been said in the foregoing paragraph as to goods or packages returned *by* the tradesman, is applicable to goods returned *to* him by his customers ; these appearing as purchases, not as sales.

But, to prevent the "turn over" being excessively stated, they must both be subtracted at the end of each month, quarter, or year, from the Day Book totals of purchases and sales, before posting these totals to the Ledger Goods Accounts affected thereby.

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## WAGES AND SALARIES BOOK.

Where a large staff of clerks, workmen, &c., is kept, much saving of time is effected by having a special book for wages, &c. It also enables the principal, or his chief clerk, to keep the amount of each



one's salary from the knowledge of the others; as only the total of each week's wages, without details, need appear in the cash book, journal, and ledger.

*Form of Weekly Wages Book.*

Names, &c., of Workmen.	Jan. 8.	Jan. 15.	Jan. 22.	Jan. 29.	Feb. 5.	Feb. 12.	&c.
	£ s. d.						
James Smith	1 10 0						
John Thomas	1 4 0						
C —							
D —							
E —							
F —							
G —							
Total ..							
Entd. in C. B.	Fo. 4	Fo. 6	Fo. 8	Fo. 10	Fo. 12	Fo. 14.	&c.

There may be required several Wages Books in the same establishment; as, *e.g.*, one for quarrymen, another for lime burners, a third for haulage, a fourth for machinemen, &c. That, however, is merely sub-division.

*Another Form;*

Arranged to serve for a year, thereby saving the trouble of re-writing the names when the list is a long one.

Names.	Date.		January.				February.				&c., to Dec. 31.
	Entd.	Left.	8	15	22	29	5	12	19	26	
QUARRY.											
John Jones											
James Wilson											

*Form of Time Book.*

January.	S. 2	M. 4	T. 5	W. 6	T. 7	F. 8	Rate of W <sup>g</sup> es	Earned.	S. 9	M. 11	T. 12	W. 13	T. 14	F. 15
James Smith	1	1	1	1	1	1	0 30/-	£1 10 0						
John Thomas	1	..	..	1	..	$\frac{1}{2}$	24/-	0 10 0						
C—														
D—														
E—														
F—														
G—														

Sometimes the Time Book and Wages Book are combined.

PARTNERSHIP ACCOUNTS.

In private partnerships the simplest and best mode of stating the partners' accounts is by having a separate Capital Account for each partner, as a creditor of the Firm for the amount of his capital therein; and

a separate Current Account also; as, *e.g.*, in the books of Messrs. Campbell and Glasgow, consisting of Archibald Campbell and Donald Glasgow, the former having £3,000 and the latter £6,000 in the business; the former being entitled to one-third and the latter to two-thirds of the profits, each of them first taking 5 per cent. per annum interest on his capital; their accounts in the Ledger being as follows, viz. :—

DR. ARCHIBALD CAMPBELL. CAPITAL ACCOUNT. CR.

1883.	1883.
Jan. 1	Jan. 1. By Union Bank, J.1 £3,000 0 0

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ARCHIBALD CAMPBELL. CURRENT ACCOUNT.

1883.	£ s. d.	1883.	£ s. d.
Jan. 31. To Cash. 2..	60 0 0	June 30. By $\frac{1}{4}$ -year's	
Apl. 30. „ 5..	250 0 0	interest on	
June 1. „ 7..	200 0 0	capital. 8	75 0 0
„ 30. „ 8..	150 0 0	„ By $\frac{1}{4}$ -share	
Balance down ..	15 0 0	of profits 9.	600 0 0
	<u>£675 0 0</u>		<u>£675 0 0</u>
		July 1. By balance down	15 0 0

---

DR. DONALD GLASGOW. CAPITAL ACCOUNT. CR.

1883.
Jan. 1. By Union Bank, J.1 £6000 0 0

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DONALD GLASGOW. CURRENT ACCOUNT.					
1883.		£ s. d.	1883.		£ s. d.
Jan. 31.	To cash.	2.. 40 0 0	June 30.	By $\frac{1}{2}$ -year's	
Apl. 30.	" "	5.. 100 0 0		interest on	
June 30.	" "	8.. 300 0 0		capital	8. 150 0 0
	„ balance	10 0 0		By $\frac{1}{2}$ -share of	
				profit	9. 300 0 0
		<u>£450 0 0</u>			<u>£450 0 0</u>
			July 1.	By balance ..	£10 0 0

It is always better to credit each partner with interest on his capital, as this shows the profits of the business exclusive of the interest which the capital would otherwise be yielding.

#### ACCOUNT SALES.

An Account Sales is an agent's statement of the sales he has made of goods consigned to him for sale on commission. It is prepared from his Ledger, and such other books of prior entries as must be turned to for details, and is generally in the following form, viz.:—

Account Sales of 24 hhds. of Sugar received per "City of York,"  
consigned by [or sold on account and at the risk of] JOHN  
WILSON & SON, of New Orleans.

1883.

Jan. 4.	Sold 8 hhds. M., at 90 days, to J. Smith.			
	Gross 80 cwt., tare 10, net 70, @ 40/-	£140	0	0
Feb. 4.	" 6 hhds. L., at 60 days, to E. Jones.			
	Gross 60 cwt., tare 6, net 54, @ 50/-	185	0	0
	Forward ..	£275	0	0

		Brought forward ..	£275	0	0
Mar. 4.	, 10 hhds. N., at 30 days, to D. Owen.				
	Gross 100 cwt., tare 10, net 90, @ 60/-		270	0	0
			£545	0	0

## CHARGES.

1882.					
Dec. 1.	Insurance .. ..	£2	10	0	
"	Freight .. ..	7	10	0	
"	Cartage .. ..	2	5	0	
"	Storage, &c. .. ..	5	4	0	
Mar. 31.	Interest on Cash paid ..	0	5	6	
	Our Commission .. ..	13	12	6	
					31 7 0
	Net proceeds due April 4 .. ..	£513	13	0	

*E.E. Liverpool, March 5th, 1888.*

THOMAS WOOD & Co.

If the Consignees, viz., THOMAS WOOD & Co., were in partnership in the adventure with the Consignor, or with the Consignor and others, they would state the fact in the heading, viz., as "Sales of Sugar, &c., for joint account of JOHN WILSON & Co., HENRY GEORGE, and ourselves," and would append to it a statement of each partner's share as follows, viz. :—

John Wilson & Son, $\frac{1}{3}$ net proceeds ..	£256	16	6
Henry George, $\frac{1}{3}$ " " ..	171	4	4
Ourselves .. $\frac{1}{3}$ " " ..	85	12	2
	£513	13	0

*Another Form.*

ACCOUNT SALES of 35 Bales of Cloth, consigned by JOHN THOMPSON, Huddersfield.

Date.	Sold to	Time.	Mark.	Nos.	No. of Pieces.	Yards.	Price.	Amount.	Total.		
1883		Mos.						£ s. d.	£	s.	d.
Ap. 6	J. Sim ..	4	A	1	70	3410	4/-	682 0 0			
"			B	to	70	3426	5/-	856 0 0			
"			C	17	40	1982	7/-	693 14 0			
									2232	4	0
" 7	E. Jones	4	D	18	30	1500	10/-	750 0 0			
"			E	to	40	1978	2/-	197 16 0			
"			F	33	40	1974	3/-	296 2 0			
									1243	18	0
" 8	S. Gee ..	4	G	34	30	1480	4/-	296 0 0			
"			H	35	30	1494	5/-	373 10 0	669	10	0
									4145	12	0
CHARGES :											
Insurance on £4,000, at 4/-							£8 0 0				
Freight .. ..							50 0 0				
Cartage .. ..							5 0 0				
Warehouse Rent .. ..							10 0 0				
							£73 0 0				
Interest on Charges to 6th August ..							1 5 9				
Commission and Guarantee, 5 0/0 ..							207 5 7				
									281	11	4
N/p. due * Aug. 6th.							£3864	0			8

London, 30th April, 1883. E. & O.E. H. MADDER.

\* In the above the transactions fall due at the same date. When they become due at different dates, the due day is ascertained by equation of payments. N/p. stands for "Net proceeds"; and E. & O.E., for "Errors and omissions excepted."

## ACCOUNT

An Account Current is a statement, up to a given date, of all transactions between two parties. The

*Dr.* THOMAS WOOD & Co. in Account with JOHN

Date.		Due.	Amounts.	Days	Interest.
1888.					
Jan. 1	To Acceptance ..	May 1	£4,000 0 0	61	£33 6 8
April 4	" your ½ n/p Sugar	April 4	256 16 6	87	3 1 0
" 20	" Acceptance ..	Aug. 24	3,000 0 0		
Jun. 30	" Discnt. on £3000 per contra ..			91	37 10 0
"	" Balnc. of Interest				47 19 10
			7,256 16 6		121 17 6
"	" Balance due you		£208 16 8		

## WAREHOUSE LEDGER

It is necessary to keep a Warehouse Account of "Quantities In" and "Quantities Out" of Goods.

## I.—RAW

	Purchases.				Pks.	Sc.	lb.
Jan. 1.	To Balance ..	..	..	..	20	5	10
" 8.	" S. Gill ..	..	..	..	18	6	2
" 12.	" E. James ..	..	..	..	30	2	3
" 31.	" W. George ..	..	..	..	15	3	5

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84 5 0

Feb. 1. To Balance .. .. . 18 0 4

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**CURRENT.**

following form includes columns for interest, which can be omitted when not required.

WILSON & SON, New Orleans, to June 30th, 1883. *Cr.*

Date.		Due.	Amount.	Days	Interest
1883.					
Jan. 1	By Balance .. ..	Jan. 1	£4,000 0 0	181	100 0 0
Apl. 20	" Goods .. ..	Oct. 1	3,000 0 0		
	" Discnt. on £3000 per contra ..			55	21 17 6
"	" Balance of In- terest .. ..		47 19 10		
"	" Balance down ..		208 16 8		
			<u>£7,256 16 6</u>		<u>121 17 6</u>

*E. & O. E., 30th June, 1883.*

THOMAS WOOD & CO.

**OR STOCK BOOK.**

In, *e.g.*, a Woollen Manufactory, three at the least are needed, viz. :

**MATERIAL.**

	How Disposed of.	Pks.	Sc.	lb.	For Pieces	Nod.
Jan. 4.	By Manufactory ..	20	2	4	120	171-290
" 11.	" " ..	25	0	0	110	291-400
" 18.	" " ..	21	1	2	100	401-500
		66	3	6	430	171-500
" 31.	Waste .. ..	0	1	10		
"	Balance .. ..	18	0	4		
		<u>84</u>	<u>5</u>	<u>0</u>		



## 2.—MANU

Date.	In.	Total No. of Pieces.	Cloths.				Nos.
			A	B	C	D	
Jan. 1	To Balance in process	170	80	10	20	60	1-170
" 4	" Wool .. ..	120	50	20	30	20	171-290
" 11	" " .. ..	110	40	30	25	15	291-400
" 18	" " .. ..	100	35	15	30	20	401-500
" 25	" " .. ..						
		500	205	75	105	115	
Feb. 1	" Balance .. ..	80	35	—	15	30	

## 3.—MER

Date.	From Factory.	Total.	A	B	C	D
Jan. 1	To Balance .. ..	214	60	60	50	44
" 4	" Manufactory .. ..	160	40	30	40	50
" 11	" " .. ..	170	80	40	30	20
" 18	" " .. ..	90	50	5	20	15
		634	230	135	140	129
Feb. 1	" Balance .. ..	244	70	35	50	89

## SUNDRY DEBTORS' LEDGER ACCOUNT.

In every credit business having a large number of customers of small amount, it proves a saving of time and labour to bring together under the head of "Sundry

## FACTORY.

Date.	Out.	Total No. of Pieces.	Cloths.			
			A	B	C	D
Jan. 4	By Merchandise .. ..	160	40	30	40	50
" 11	" " .. ..	170	80	40	30	20
" 18	" " .. ..	90	50	5	20	15
		420	170	75	90	85
" 31	" Balance .. ..	80	35	—	15	30
		500	205	75	105	115

## CHANDISE.

Date.	Sales.	Total.	A	B	C	D
Jan. 16	By Goodwin .. ..	150	60	60	30	20
" 18	" Miller .. ..	60	20	20	20	
" 20	" Sampson .. ..	180	80	40	40	20
		390	160	100	90	40
" 31	" Balance .. ..	244	70	35	50	89
		634	230	135	140	129

Debtors," such as have perhaps only a balance or single item against them, giving to each of them a line instead of a folio, and arranging them in alphabetical order, using the phonetic rather than strict orthographical arrangement.

**DEPRECIATION; REPLACEMENT; RESERVE; SINKING  
FUND; AND PRELIMINARY EXPENSES ACCOUNTS.**

It is necessary in every business using costly plant, machinery, furniture, &c., to set aside from each year's profits, a fair equivalent for depreciation of the property, or replacement of the machinery; or to form a sinking fund for renewal of the lease of the premises, if these be leasehold, or for provision of other premises in their place; or to accumulate a reserve fund to meet losses and contingencies likely to arise, but whose amount cannot be exactly known before hand. These are accomplished by Journalizing as follows, viz. :—

Depreciation A/c., <i>Dr.</i>   To Plant A/c. . . . .	£1,000	0	0
Being 10 % of its cost written off.			
Profit & Loss A/c., <i>Dr.</i>   To Machines Replacemt A/c. . . . .	£2,000	0	0
Being 10 % of cost reserved for Replacement.			
Profit & Loss A/c., <i>Dr.</i>   To Reserved Fund . . . . .	£1,500	0	0
Being 5 % reserved for Bad Debts.			
Profit & Loss A/c., <i>Dr.</i>   To Sinking Fund . . . . .	£700	0	0
Being instalment to renew lease, £500	0	0	
Interest on last year's amount	200	0	0
Profit & Loss A/c., <i>Dr.</i>   To Preliminary Expenses A/c. . . . .	£750	0	0
For fifth year's instalment of Formation Expenses.			

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**OF ERRORS.**

Inadvertent transposition of figures is often a cause of non-balancing; as, *e.g.*, entering 946 for 964; and a more frequent cause is the entering of pounds

for shillings, and shillings for pence ; this chiefly proceeding from an inexact and careless mode of calling over the amounts to be posted ; as, *e.g.*, entering 19s. 6d. instead of £19 6s., or £28 4s. instead of £20 8s. 4d. through calling out nineteen six, and twenty-eight four, instead of nineteen pounds six, and twenty pounds eight and fourpence ; and entering, *e.g.*, £8 for 8s., and 8s. for 8d., &c., is of the same nature in its occurrence and results.

The object of calling this attention to the matter is to teach the great importance of always using unmistakeable denominating words, and the greatest care and accuracy in calling over money to the posting or checking clerk ; or mentally to himself when the latter is unaided in that work.

There are two kinds of errors which do not prevent balancing, and are not detected by it, viz. :—

1. Where the original entry is incorrect ; as, *e.g.*, in the case of James Wilson, being debited with £60, and wine account credited with £60, instead of £80, for a hogshead of Sherry : the books balancing, but two accounts in the ledger being incorrect.

2. Compensating errors, arising from one debit being over and another under posted of the same amount ; the like of two credits ; a debit and a credit being equally under or equally over posted ; and equal

errors of debits and credits in either additions, or transfers, or carrying forward of balances. Careful work in entering, and in calling over, must be relied on to avoid and correct those errors.

Always, in posting, repeat the posting folio in its proper figure, both in the Ledger and the Day Book, where two or more entries having the same posting folio come together. Do not use leaders, *i.e.*, dots, under the first entry. *E.g.*, enter

Fo. 4.	To John Jones	£20	0	0	not, fo. 4.
" 4.	" "	40	0	0	" "
" 4.	" H. Smith..	10	0	0	" "

Balance the Cash Book and compare the balance it shows with the cash in hand every day ; for if anything has been omitted the memory will be likely to recall it while the day's doings are freshly in mind. Thereby you will avoid much loss of time and anxiety subsequently, and of money too, in vain efforts to remember the day's unrecorded transactions. In cash matters every cash transaction ought to be entered on its taking place. Some trust to their bank book as their cash book. It is not a plan deserving of imitation.

The qualifications of a Book-keeper which are of chief value are his ability to assign transactions to their proper accounts, and to distinguish capital and revenue. It is therefore in journalizing that his skill is most required and tested. For the rest, that of making

entries in the Cash, Sales, and Purchase Books, and posting Day Books into the Ledger, it is largely mere mechanical work, requiring care but not calling for any critical and selective thought. At the same time an inferior agent for the mechanical work referred to sometimes proves a serious loss to his employers, through grave errors arising from his incompetence.

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#### OF REMARKABLE IGNORANCE OF THE SCIENCE OF BOOK-KEEPING.

One of the most remarkable facts to be found in any history of professional ignorance and charlatanism is that of the issue, in 1796, as a new discovery, of a work called the *English System of Book-keeping*. It comprised 15 pp. of introduction, 14 of text, and 16 of forms, viz., Day Book, 8; Ledger, 6; others, 2; Total, 45 pp.; or, of instruction, only 30! In it "Double Entry" is denounced as follows—"The Method by Double Entry, as complex in most Compting Houses as it is obscure, hath something mysterious implied even in its very name: and surely there never was a more *infamous* and *cunningly devised* system ever formed, though not intended to be so originally. The prejudices of men in its favor, and the wild theoretical arguments produced to support it, are truly wonderful. But, in a few years, I think it will be said that the Italian method

hath seen its day. \* \* \* \* Few arguments will be necessary to prove that it only tends to cover in secrecy the *worst of purposes* by systematic art."

Yet, on its next page, it adds "Though the plan I have laid down is Single Entry, yet I have given an example for Double Entry *on the same principle of correctness, so that no well grounded objection can be raised against the English system, especially as the form of it so nearly agrees with the method now in use.*"

For this precious production, which, it is stated, (see McDougall, Manchester, part 1, p. 19) was sold at £4 4s. a copy, its author obtained a patent, and the work contains a list of Subscribers covering 15 pages, and nearly 4000 in number, representing about £16,000 as his reward for traducing truth and teaching error! exclusive of the large gains which it also brought to him in his professional practice as an Accountant.

A prompt and able refutation of the above charges appeared in 1797, in Wick's interesting publication, *Book-keeping Reformed*. And other writers also well exposed its unwarranted pretensions.

Cory, a remarkably clear and able authority, wrote that the Italian system, in its original form, is indeed so natural that it must have been coeval with commerce; and, subsequently, condemning the error of beginning with teaching forms first, and then passing

to the Italian system, says of this system, that it is really the whole system of Book-keeping in its most simple form; and, when once a knowledge of its principles is attained, a single glance will almost suffice for comprehension of any other systems, which are little else than broken fragments of a whole, and in which the student has to hoard up rules without reasons.

The original edition of the *English System* (the compulsory adoption of which its author sought to have imposed by legislature) so far succumbed to the attacks made on it that it gave place to a greatly altered successor, in which Double Entry is no longer condemned, but admitted to its proper place; but in which the Italian system is made to bear the brunt of the denunciation, as if it were, through the imperfection of form above mentioned, inherently wrong in principle. And the *English System*, in its latest form, is not an exposition of Book-keeping, but only a description of its author's peculiar methods. And, in fact, the great majority of writers on Book-keeping teach only forms and special systems; giving, as Cory says, a multiplicity of rules without reasons, and thereby investing a very simple science with mystery and difficulty.

The following are further examples of ignorance of principles on the part of able writers on Book-keeping, and of eminent accountants.


1. As to the side on which Assets ought to



appear in a Balance Sheet when stated in the form of a Dr. and Cr. Account. This I have dealt with exhaustively in my pamphlet on the subject, a copy of which can be had gratis by every purchaser of this book.

2. As to whether accounts of goods and property, viz., sugar, coffee, wine, land, &c., stand for and are synonymous with the business itself or the proprietor of the business. Now, my "Sugar" Account means "my Account for Sugar." It stands for me, not for my business. Nothing can be plainer. And yet a clever American writer on Book-keeping, whose work is highly meritorious, contests that position, and asks somewhat too triumphantly, "Who credits Stock? It would be nonsense to say that a man owes himself. The person competent to construct a system of philosophy on such a basis would be able to show how a man might lift himself by his own boot straps, or get rich by taking money from one pocket and putting it into another." He forgot, or had never known, that Stock is a fictitious or artificial equalizing account, and not a person. I, the proprietor, *am* indebted for my sugar to my cash, or to other of my property; *i.e.*, in the sense of his argument, to myself.

3. As to *nominal* accounts. The meaning of this term is much misunderstood. In the last Examination questions of the Institute of Accountants it is used improperly in speaking of impersonal or nominal accounts.



(See page 198 thereof.) There are only two grand classes of accounts, viz.—1. Real Accounts, or Accounts of Property. 2. Fictitious, or Equalizing Accounts. The former are sometimes subdivided into Real Accounts or Property Accounts and Personal Accounts. But every Personal Account is a Property Account, because it represents either a debt receivable (an asset), or a debt payable (a liability). It is only fictitious accounts which are nominal accounts, being so called to distinguish them, not from personal, but from real accounts. They have only nominal existence.

The student should first learn what is essential ; next, that which experience has selected as the most expedient ; and afterwards, optional methods.

By learning principles first, he will be fitted to understand and to use not only such forms as he may have specially practised, but all other forms and expedients for special requirements which have proved of special advantage in saving labour or otherwise ; and to devise forms for other applications of the science than have come under his notice.

Whoever has duly profited from the foregoing teaching will find that he has thoroughly acquired the principles of Book-keeping, and the power of applying his knowledge ; but it is only by considerable practice that he will be able to make that acquirement a lasting possession.

The author will willingly correspond with purchasers of this work, and with others, to aid them in any difficulties, either in studying the subject or in carrying it into practice. He has studiously made use of the simplest forms as being better suited for effective teaching than those of greater complexity.

### EXERCISE II.

(See ante p. 88; For Exercise I, see p. 68).

Jan. 1.	Hamilton Lee commenced business with	£1,000	0	0
	And Office Furniture, worth .. ..	100	0	0
" 1.	He paid into the City Bank .. ..	900	0	0
" 1.	Bought Office Books, for Cash .. ..	5	0	0
" 2.	Bought 10 Chests of Tea from T. Smith ..	100	0	0
" 3.	Bought 20 Bags of Sugar from John Wilson	50	0	0
" 6.	" 1 cwt. of Coffee, for Cash .. ..	10	0	0
" 9.	Sold 5 Chests of Tea to James Anson, for	37	0	0
" 10.	" 70 lbs. of Coffee, for Cash .. ..	8	0	0
" 12.	Bought 2 hhds. Sherry, at £15 .. ..	30	0	0
	Paid for same, by Cheque on City Bank ..	29	10	0
	Discount allowed .. .. ..	0	10	0
" 18.	Received Wilson's Acceptance at 1 month	50	0	0
	Paid same to Thomas Smith .. ..	50	0	0
	" Cash to do. .. ..	20	0	0
	" Cheque on City Bank to do. .. ..	30	0	0

Open Ledger Accounts for the above, viz.—Capital Account, Office Furniture, Office Expenses, Discount, Tea, Sugar, Coffee, Sherry, City Bank, Cash, Thomas Smith, John Wilson, James Anson, and Bills receivable.

Follow the instructions given on pp. 69-72. You need not form Cash Book, Purchase, Sale, or Bills Receivable Books, but only the Ledger Accounts.

Take out a trial balance, a balance account, and a profit and loss account; stock on hand to be valued at cost price.

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EXERCISE III. Using the transactions Exercise II, take out a Balance Sheet.

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#### EXERCISE IV.

Journalize the following transactions in form 2, given on p. 99, and in the forms given on pp. 101 and 102. In the first of these forms, viz., as shown on p. 99, supply the narration as well as entry, so far as you are able to do it from the facts given to you. Open Ledger Accounts, and take out trial balance, Profit and Loss Account, and Balance Sheet.

James Alexander, on January 1st, 1860.

Had 60 pieces Irish Linen, 25 yards each, at 2/- per yard.

" 10 hhd. Tobacco, weight 7,000 lbs., at 5/- per lb. duty paid.

" £200, 3 per cent. Consols, at £95.

" 4/16 ship "Eagle," worth £500.

He owed to James Arch, payable July 1st, £100.

" Custom House duty on 7,000 lbs. Tobacco, at 3/6 per lb.

Jan. 2. Bought of William Simpson. 30 pieces of Carpet, at 50/- per piece, paying half in cash and two months' acceptance for balance.

- Jan. 3. Bought of James Henry, 20 pieces of Cloth, 20 yards each, at 5/- per yard. Paid £60 on account; balance due in six months.
- " 4. Sold 5 hhds. Tobacco to Joseph James, weight 3,000 lbs., at 7/6 per lb., due at three months, receiving from him his four months' acceptance for £40, cash £1,000, discount allowed, three months, at 5 % balance payable by him on demand.
- " 4. Sent James' acceptance to James Henry. Discount for paying two months before due to be placed to my credit.
- " 5. Paid Office Expenses, £5.
- " 6. Received a Legacy, £500, and added it to my capital.
- " 7. Received Joseph Nettleton as partner, with £3,000. Each partner to have 5 % interest on his capital. I to take 2/3rds and he 1/3rd of profits, both as from January 1st. Paid City Bank £3,000.
- Ap. 30. Sold balance of Tobacco at a profit of 3/- per lb. for cash. Sold the Carpet at 80/- per piece for cash. Paid off James Arch under discount at 5 %.
- Made up our books to-day, and divided profits, paying each by cheque on City Bank.

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### EXERCISE V.

Construct and balance a Cash Book in the different forms already given you, from the following facts, viz:—

1868, Jan. 1.	Cash at Bankers	..	..	..	£1600	0	0
" 1.	Cash in hand	..	..	..	400	0	0
" 4.	Paid into Bank	..	..	..	200	0	0
" 4.	Received of J. Johnson	..	..	..	300	0	0
" 6.	Paid John Wilson	..	..	..	50	0	0
" 8.	" James Gray, by cheque	..	..	..	90	0	0
" 12.	Received of F. Marsden, and paid same into Bank	..	..	..	700	0	0

## EXERCISE VI.

Enter the following transactions in Books for Purchases, Sales, Bills and Cash. Open one Account for Wine and another for Brandy. Cash to be in form 8. Then Journalize and Ledgerize from the foregoing books. Balance and close the Ledger, valuing Stock on hand at Cost Price.

Jan. 1.	Cash in hand .. .. .	£500	0	0
" 8.	Bought of J. Wilson 12 hhds. of Port, at £15	180	0	0
" 15.	Sold same to F. Yates at £20 .. ..	240	0	0
" "	Paid J. Wilson his a/c .. .. .	175	0	0
" "	Discount allowed .. .. .	4	10	0
" "	Received of F. Yates his Acceptance at 4 mos.	240	0	0
" "	Discounted same with Union Bank, receiving Cash .. .. .	237	0	0
" 18.	Bought of L. Taylor 20 casks Brandy, at £15 each .. .. .	300	0	0
" "	Accepted L. Taylor's Bill at 3 months ..	300	0	0
Feb. 1.	Sold 10 casks Brandy to J. Gale, at £17 each	170	0	0
" "	Received F. Gale's Acceptance at 7 days ..	170	0	0
" 8.	Sold Thos. Johnson 5 casks Brandy, at £18	90	0	0
" 10.	Received from T. Johnson .. .. .	87	15	0
" "	Discount allowed .. .. .	2	5	0
" "	Paid Union Bank .. .. .	87	15	3
" 12.	Bought 4 hhds. Sherry, at £14 .. ..	56	0	0
" "	Paid for same by Cheque on Union Bank ..	55	7	6
" "	Discount allowed, $1\frac{1}{4}\%$ .. .. .	0	12	6
" 15.	Sold 3 hhds. Sherry to Thos. Young, at £18	54	0	0
Apr. 21.	Paid L. Taylor's Bill by Cheque on Union Bank .. .. .	300	0	0

## EXERCISE VII.

Journalize and Ledgerize the following facts and

transactions (*not* entering them in Cash, Purchase, and Sales Books). Then take out a Trial Balance, a Balance Sheet, and a Profit and Loss Account. Stock on hand to be valued at cost price.

**Assets and Liabilities of John Johnson, General Merchant, on March 1st, 1868.**

Goods on hand :					£	s.	d.
2 butts Sherry	..	..	..	.. at £64	128	0	0
3 pipes Port	..	..	..	.. at £75	225	0	0
Cwt. qr. lb.							
Tobacco	..	..	5 1 12	at 5s. per lb.	150	0	0
Sugar, 3 hhd.	..	33	2 16	at 45s. 6d. per cwt.	76	10	9
Coffee, 30 bags Ceylon, 15	3	0	at 58s. 6d. per cwt.	46	1	4	
Cash in hand	..	..	..	..	28	12	6
Cash in Union Bank	..	..	..	..	220	15	0
Debts due to him :—							
Yates & Co.	..	..	..	..	52	13	8
Henry Walton, loan at 5 per cent.	..	..	..	..	90	0	0
Bills Receivable :—							
No. 47, Chas. Austin's Acceptance, due March 17th					49	15	0
No. 48, James Bernard's ditto, due April 20th					42	12	6
Office Furniture, valued at	..	..	..	..	80	0	0
Debts owing by him :—							
William Sutton	..	..	..	..	112	10	8
Treacher and Webb, to bear interest from to-day at 5 per cent.	..	..	..	..	157	16	4
Arthur Jones	..	..	..	..	17	2	7
Bills Payable, viz :—							
No. 17, drawn by Thomson & Co. at 2 months, dated 7th January, due 10th March	..	..			168	14	0
No. 18, drawn by Ralph Brothers at 2 months, dated 3rd February, due 6th April	..	..			53	11	10

No. 19, drawn by H. Taylor in favour of Smithson  
& Co. at 2 months, dated February 7th .. .. 237 9 6

## March 2.

Received from V. Duhart, Bordeaux :

Invoice of Brandy shipped per "Minerva."

6 cases, 2 dozen each, at 43s. per dozen .. .. 25 16 0

Insurance and Shipping charges .. .. 1 10 0

Paid duty on Brandy ex "Minerva," 24 galls. at 15s. 18 0 0

Paid Freight and charges .. .. 1 19 4

Bought of Thomson & Co. :—

74 cwt. Iron Bars .. .. at 8s. 6d. per cwt. 31 9 0

6 tons Iron Hoops .. .. at 10s. 6d. per cwt. 63 0 0

## March 3.

Paid Arthur Jones by cheque .. .. 17 2 7

Bought of Arthur Jones, at 2 months :

4 puncheons Whiskey, each 56 gallons, at 6s. 4d.

per gallon .. .. 70 18 8

Drew from Bank .. .. 20 0 0

Paid duty and charges on 2 puncheons Whiskey .. 14 15 0

Accepted Arthur Jones's draft at 2 months, No. 20,  
due 6th May .. .. 70 18 8

## March 4.

Consigned to V. Duhart, Bordeaux, to sell on Commission :

74 cwt. Iron Bars .. .. at 8s. 6d. per cwt. 31 9 0

6 tons Iron Hoops .. .. at 10s. 6d. per cwt. 63 0 0

Sold Fred. Mercer :

1 pipe Port, £78 ; 1 butt Sherry, £68 .. .. 146 0 0

Sold for cash to Farmer and Simpson :

2 puncheons Whiskey, 112 gallons, at 9s. 6d. .. 53 4 0

Received of Yates & Co. .. £52 0 6 ..

Discount allowed them, 1½ % 0 13 2 ..  

---

52 13 8



## Sold Yates &amp; Co. :

1 hhd. Sugar, Cwt. 10 3 0 ..	at 48s. per cwt.	25 16 0
4 bags Coffee, " 2 1 15 ..	at 60s. per cwt.	7 3 0

## March 10.

Sold William Sutton 2 pipes Port .. ..	at £76	152 0 0
Received of William Sutton .. ..	£39 9 4	
Less $1\frac{1}{4}\%$ discount .. ..	0 9 10	
		38 19 6
Drew from Bank .. ..		40 0 0
Paid my Acceptance, No. 17, to Thomson & Co. ..		168 14 0

## March 11.

Paid into Bank for discount, J. Bernard's Acceptce.

No. 48. Contents £42 12 6

Discount 0 4 8

Leaving amount of my credit 42 7 10

## March 12.

Paid Alex. Brown for improvements in Office Furniture 4 3 9

## March 15.

Bought of Ralph Brothers :

Green Copperas, Cwt. 15 3 0, at  $3/6$  per cwt. 2 15 1

Fred. Mercer has paid in to my Bankers .. .. 120 0 0

## March 16.

Paid Duty and other Charges on 2 puns. Whiskey .. 14 15 0

Sold F. Mercer 1 pun. Whiskey, 56 gal., at  $9/8$  .. 27 1 4

## March 17.

Charles Austen has taken up his Bill, No. 47.. .. 49 15 0

## March 18.

Received Fred. Mercer's Acceptce, No. 49, at 1 mo.,

for amt. of his a/c; due 21st April .. .. 53 1 4

## March 20.

Paid to Ralph Brothers .. .. 2 15 1

Recd. of Henry Walton on-a/c of Loan .. .. 20 0 0

Discounted (to the holder) my Acceptce. No. 18,  
drawn by Ralph Brothers, viz. £53 11 10

Disc. 0 2 6

Paid by Cheque 53 9 4

Sold to Yates & Co.:

9 bags Coffee, Cwt. 4 0 24 nett, at 60/- per cwt. £12 12 10  
1 pun. Whiskey, 56 gal., at 9/8 per gal. 27 1 4

March 22.

Recd. of Yates Co. their Acceptce. No. 50, at 2 mos.  
for amt. of their a/c; due 25th May .. .. 72 13 2

March 23.

Sold to Jacob Emerson for cash:

Tobacco, Cwt. 3 1 12 at 4/10 per lb. 90 17 4  
Copperas, " 15 3 0 at 3/8 per cwt. 2 17 9  
Paid into Bank .. .. 80 0 0

March 24.

Bought of Arthur Jones, 4 puns. Whiskey, 224 gal.  
at 6/3 .. .. 70 0 0

March 26.

Remitted to Arthur Jones:

F. Mercer's Acceptce. No. 49, endorsed .. £53 1 4  
and Cash 16 18 8

March 27.

Paid Duty and other Charges on 1 pun. Whiskey .. 7 7 6

March 29.

Sold for Cash to Farmer & Simpson:

1 pun. Whiskey, 56 gal. at 9/6 26 12 0  
Paid to Thomson & Co. by cheque .. .. 92 1 1  
viz., amt. of a/c £94 9 0  
less 2½ p.c. as allowed 2 7 2

Bought at auction sale a lot of Old Timber for £25, and gave up my bargain to H. Hume for £3 cash	3 0 0
Advised by V. Duhart, Bordeaux, that he has effected sale of the merchandise consigned to him, and that Proceeds, after deducting his commission and all other charges, will nett <i>francs</i> 2987·65, exch.	
@ <i>f.</i> 25 per £ .. .. .	119 10 1
Received as Composition for a Bad Debt, given up as hopeless last year .. .. .	10 0 0

## March 31.

Recd. of H. Walton, a/c of Loan ..	£30 0 0	
with Int. on £90 for 19 da. at 5 p.c.	0 4 8	
and Do. on £70 for 11 da. "	0 2 1	
	<hr/>	30 6 9
Remitted to Treacher & Webb on a/c	£78 0 0	
with 30 da. Int. on £157 16 4 at 4 p.c.	0 10 4	
	<hr/>	78 10 4
Sundry Cash Payments this Month :—		50 7 10
viz., One Quarter's Rent.. ..	£17 10 0	
Taxes .. .. .	6 15 0	
Gas .. .. .	2 4 6	
Clerk's Salary .. .. .	15 0 0	
Wages .. .. .	4 13 0	
Storage Charges .. .. .	2 11 6	
Postage and other Petty Expenses	1 13 10	

*The following is one of the Papers set by the Society  
of Arts' Examiners, the time allowed being three hours :*

Journalize and post in the ledger, in proper  
technical form and language, the following imaginary  
facts and transactions, and draw out from the ledger

a trial balance, a balance sheet, and profit and loss account.

On January 1st, 1861, Charles Stuart ascertained that the state of his affairs was as follows:—

ASSETS: Pig Iron, 400 tons, at £4	..	..	£1,600	0	0
Balance of cash in hand	..	..	1,400	0	0
O. Cromwell's acceptance due 10th Jan.			500	0	0

DEBT: C. Stuart's acceptance due 25th January	..		570	0	0
---	----	--	-----	---	---

Jan. 4. Purchased of Carron Company, 200 tons of pig iron	..	..	..	..	£900	0	0
" 5. Sold to J. Locke, 300 tons pig iron	..				1,400	0	0
" " Received of J. Locke, his acceptance due 8th March	..	..	..	..	1,000	0	0
" " Received Cash of J. Locke	..	..	..	..	200	0	0
" 10. Cash paid, freight and insurance, on 200 tons pig iron	..	..	..	..	45	0	0
" 11. O. Cromwell's acceptance due 10th inst., returned dishonoured	..	..	..	..	500	0	0
" " Cash paid Notarial charges thereon	..			..	1	10	0
" 12. Sold to J. Locke, 200 tons pig iron	..			..	1,000	0	0
" 15. Paid cash to Carron Company	..	..		..	900	0	0
" 17. Discounted J. Locke's acceptance for £1,000							
" " Received cash proceeds of Bill	..	..		..	992	10	0
" " Discount charged thereon	..	..		..	7	10	0
" 18. Received of J. Locke, his acceptance due 4th April	..	..	..	..	800	0	0
" 21. Purchased of C. J. Mare & Co., 2,000 tons iron rails, at £5 10s.	..	..	..	..	11,000	0	0
" 23. Consigned to Pernambuco, on my own account and risk, to the care of Ewart & Co., of that place, 1,000 tons iron rails, at cost price of £5 10s. per ton	..	..		..	5,500	0	0

Jan. 23.	Received of Vernon & Co., of London, by way of advance on the above shipment, their acceptance at 4 months' date ..	3,000	0	0
" 24.	Accepted C. J. Mare & Co.'s draft on me, at 3 months' date .. .. .	6,000	0	0
" "	Paid cash to C. J. Mare & Co. on account	2,500	0	0
" "	Cash paid freight and charges on iron rails consigned to Pernambuco.. ..	750	0	0
" 25.	Cash paid my acceptance due this day ..	570	0	0
" "	Cash paid to J. Mackenzie on my private a/c.	160	0	0
" 25.	Sold to G. Stevenson, 200 tons iron rails, at £6 per ton .. .. .	£1,200	0	0
" "	Received of J. Stevenson, his acceptance due 28th March .. .. .	1,000	0	0
" 26.	Sold to J. Locke, 600 tons iron rails, at £6 per ton .. .. .	3,600	0	0
" 28.	Received cash of J. Locke on account ..	2,800	0	0
" "	Cash received from O. Cromwell on account of his acceptance due 10th inst., returned dishonoured .. .. .	200	0	0
" 31.	Cash paid to my clerk, 1 month's salary, to date .. .. .	25	0	0
" "	Interest accrued due on this date, viz.— One month on capital account .. ..	11	5	0

## Stock on hand on 31st January—

Pig iron, at £4 .. .. .	400	0	0
Iron rails, at £5 10s. .. .. .	1,000	0	0

## Amounts due and unpaid, 31st January, viz.—

To Wm. Johnson, 1 month's rent of office and warehouse .. .. .	13	6	8
" J. Howard for stationery .. .. .	6	10	0

CIVIL SERVICE EXAMINATIONS.

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A paper similar to the following (A) is set to *every candidate* who is examined in Book-keeping, along with a special paper adapted to the office for which he is a candidate. In either case the following "Instructions" are given.

- (a) *You are advised to read the instructions and directions, and to examine the books supplied to you before you commence your work.*
- (b) *Attention should be paid in this exercise to neat writing, to perfect correctness, and to speed.*
- (c) *No part of the work is to be recopied, but every entry is to be written at once into the books provided.*
- (d) *No erasures are to be made. If any correction is necessary it can be made by drawing the pen through the part which is erroneous, and then making a fresh entry.*
- (e) *The calculations in the examination paper need not be checked.*

A.

Time allowed, 1½ hour.

1. Copy the following into the sales book and invoice book provided, putting all amounts for wine in the column headed "Wine," and so with spirits and beer.

All the details must be given, and no contractions are to be adopted except those given in the printed form.

The articles bought or sold in "aums" are wines.

Returns to or by me are to be treated as purchases or sales respectively.

2. Post the transactions from these books into the ledger, opening personal accounts only. The amount to be posted is that in the total column, and no details are to be given in the ledger. Each ledger entry must therefore be in the words "To" or "By" "Wine," "Beer," "Spirits," or "Sundries."

The folio column in the sales book and invoice book is to be supplied with figures referring to the page of the ledger to which each item has been carried ; and the corresponding column in the ledger is to be

supplied with figures referring to the page of the sales book or of the invoice book from which entry each has been brought.

[The ledger is not to be balanced ; and no index to the ledger need be made.]

1855.

Feb.	1.	Bought of Schramm, Krabbé & Co—			
		1 aum Steinberger Ausstich, at £180 ..	£180	0	0
		3 aums Liebfraumilch, at £16 .. ..	48	0	0
"	2.	Sold Andrew Macdonall—			
		1 aum Liebraumilch, at £18 .. ..	18	0	0
"	3.	Bought of Coplestone & Sons—			
		10 puncheons Leeward I. rum, 871 gallons,			
		at 28 per cent. = 1,071 gallons proof,			
		at 3s. 3d. .. ..	174	0	9
"	4.	Sold John Untley Wignall—			
		1 puncheon Leeward I. rum, 108 gallons,			
		at 3s. 6d. .. ..	18	0	0
"	5.	Sold Alexander O'Donnal—			
		1 aum Liebfraumilch, at £18 .. ..	18	0	0
		1 puncheon Leeward I. rum, 118 gallons,			
		at 3s. 6d. .. ..	19	15	6
"	6.	Bought of John Collenette—			
		50 doz. qts. stout, at 5s. .. ..	12	10	0
		100 doz. qts. stout, at 4s. 9d. .. ..	23	15	0
		51 doz. qts. Burton ale, at 4s. .. ..	10	4	0
"	"	Sold Andrew Macdonall—			
		2 puncheons Leeward I. rum, 216 gal-			
		lons, at 3s. 6d. .. ..	37	16	0
"	"	Sold Patrick McDouall & Son—			
		2 puncheons Leeward I. rum, 212 gal-			
		lons, at 3s. 6d. ... ..	37	2	0



1855.

Feb.	7.	Sold John Collenette—			
		2 gallons Leeward I. rum, at 3s. 6d. ..	£0	7	0
"	8.	Sold Charles Frederic Worledge—			
		20 doz. qts. stout, at 5s. .. ..	5	0	0
		1 puncheon Leeward I. rum, 109 gallons,			
		at 3s. 5d. .. ..	18	12	5
		1 aum Steinberger Ausstich, at £145 ..	145	0	0
"	"	Sold Williams, Phillipps & Co.—			
		25 doz. pts. Burton ale, at 4s. 3d. ..	5	6	3
"	9.	Sold MacDonald, Sons & Co.—			
		25 doz. pts. Burton ale, at 4s. 4d. ..	5	8	4
"	"	Returned by Alexander O'Donnal—			
		1 aum Liebfraumilch, at £18 .. ..	18	0	0
"	"	Sold John Utley Wignall—			
		1 puncheon Leeward I. rum, 108 gal-			
		lons, at 3s. 6d. .. ..	18	0	6
"	"	Sold Patrick McDouall & Son—			
		1 puncheon Leeward I. rum, 108 gal-			
		lons, at 3s. 5d. .. ..	18	9	0
		50 doz. qts. stout, at 5s. 6d. .. ..	13	15	0
"	12.	Returned to Schramm, Krabbé & Co. —			
		2 aums Liebfraumilch, at £16 .. ..	32	0	0

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## B.

Used in competitive Examinations.

Time allowed, 3 hours.

*Instructions—*

*The answers to questions 1, 2, and 5 should be as carefully written as if they were entries in real account books.*

## 1. Journalize the following transactions :—

1868.

July 1. In hand—

Cash	.. .. .	£65 0 0
Ditto at Bank	.. .. .	150 0 0
Goods	.. .. .	119 7 2
John Flockton's acceptance due July 27th		45 0 0
Debts owing by me—		
Jonas Thompson	.. .. .	34 0 0
Thomas Dorrington	.. .. .	26 5 4
" 2. Paid into bank	.. .. .	56 0 0
" 3. Bought of John Travers—		
3½ chests Hyson tea, 1 cwt. 3 qrs. 4 lbs.		
= 200 lbs., at 2s. 3d.	.. .. .	22 10 0
" 4. Sold to John Brough—		
1½ chests Oolong tea, 40 lbs. net, at 1s. 8d.		3 6 8
8 boxes pearl leaf gunpowder, 72 lbs., at 3s. 6d.	.. .. .	12 12 0
" 5. Paid Thomas Dorrington (by cheque)	.. .. .	26 5 4
Paid wages	.. .. .	3 1 0
" 11. Sold to William Herne—		
2½ chests flowery Pekoe, 131 lbs. net, at 2s. 5d.	.. .. .	15 16 7
" 12. Paid wages	.. .. .	3 1 0
" 14. Accepted draft of Jonas Thompson at 1 month		34 0 0
Received of John Brough, acceptance at 2 months	.. .. .	15 18 8
Paid into bank for discount Brough's and Flockton's bills (discount 4s. 8d.)	.. .. .	60 18 8
" 19. Paid wages	.. .. .	3 1 0
" 24. Drew cheque on bank	.. .. .	25 0 0
Paid John Travers	.. .. .	22 10 0
" 26. Paid wages	.. .. .	3 1 0
Paid into my account at bank by William Herne (to balance)	.. .. .	15 16 0
" 28. Flockton's bill returned from bank dishonoured		45 0 0

2. Post the above transactions in the ledger given herewith. No index need be made.
  3. Balance and close the ledger, assuming a value for the stock in hand.
  4. By how much am I solvent or insolvent? What, on your assumptions, has been my gain or loss on goods in the period taken, and what my total gain or loss?
  5. Rule a form for a cash book having a column for cash, one for bank, and one for bills, and enter in it as many of the transactions given above as should be placed there.
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## C.

Set to candidates for clerkships in the Admiralty.

Time allowed, 2 hours.

*Instructions—*

*The questions should be answered, as far as possible, in the order in which they stand. No credit will be given for statements which are not strictly in answer to the questions proposed.*

1. Rule a form for a cash book having two sets of money columns, and enter in it as many of the

following transactions as can be placed there, using one set of money columns for "bank" and one for cash :—

1863.

July	1.	Cash in hand .. .. .	£521	13	8
"	"	Cash at bank .. .. .	176	2	9
"	2.	Paid into bank .. .. .	500	0	0
"	3.	Received of Rogers and Wroe .. .. .	26	13	7
"	"	Received of W. Ellis .. .. .	18	11	11
"	4.	Paid Munt, Brown & Co. .. .. .	50	0	0
"	5.	Paid W. Brown (by cheque) .. .. .	123	1	4
"	9.	Received of John Cook (and allowed him 30s. as discount) .. .. .	28	10	0
"	15.	James Wilson (paid into my account at bank)	117	2	5

2. Journalize the transactions given in question 1.
3. How should the merchandise account be treated in order that the ledger might (so far) be closed?
4. How should stock account be treated in order that the ledger might (so far) be closed?
5. How should profit and loss account be treated in order that the ledger might (so far) be closed?
6. How should the account for "ship Mary Jane" be treated in order that the ledger might (so far) be closed?
7. If a trader had a clerk who was perfectly accurate in his work, never at any time making a single

mistake, what would he gain by having his books kept by "double entry" instead of by "single entry?"

8. Rule a specimen of the form of a "trial balance."  
How is a "trial balance" prepared, what is its purpose, and how far does it answer that purpose?
9. On the ruled paper supplied to you open a ledger account for "cash" and a ledger account for "Rogers and Wroe," and post into these accounts such of the transactions dealt with in answer to questions 1 and 2 as belong to them.
10. Give the journal entry which Munt, Brown & Co. should make for the transaction of July 4th [question 1].
11. Give the journal entry which John Cook should make for the transaction of July 9th [question 1].
12. If you have time after answering the above you may reply to *any one* of the following:—
  - A. Give a description of any form of government book-keeping with which you are acquainted, pointing out where it differs from ordinary mercantile book-keeping, and assigning the reason for the variation, and comparing also the non-personal accounts with those of mercantile book-keeping.

- B. Give an account (similar to that required by A.) of any application of the system of double-entry to solicitors' accounts or to farming accounts.
- C. Describe any variations of double entry with which you are acquainted, either in the form or the books themselves. Describe the apparent object of the changes, and estimate their value.
- D. What could be gained and what would be lost by dispensing with the journal in double entry?

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D.

Set to candidates for Inspectorships of Schools  
(Ireland).

Time allowed, 2 hours.

*Note.--Nothing which is not strictly in answer to the questions proposed will be examined. All the answers should be written neatly.*

1. Rule a form for a cash book, and enter in it the following transactions :—

c c

1864.

Jan.	1.	Cash in hand .. ..	£250	0	0
"	2.	Received of Miles O'Reilly.. ..	72	5	1
"	3.	Paid James Bryan .. ..	21	2	5
"	6.	Paid wages .. ..	1	4	6
"	8.	Received of Michael Shaughnessy .. ..	4	5	9

2. What is the balance of an account, and on which side is it said to fall? Refer in your answer to the cash account which would be made for the transactions in question 1.
3. It has been said that "the system of double entry proceeds on the obvious principle that every debtor must have a creditor." Consider with reference to this statement, the journal entries—"Smith, Dr. to goods, £5," and "Profit and loss, Dr. to cash, £2 5s.," and give your reasons for thinking them reconcilable with it or not.
4. Journalize the transactions given in question 1.
5. Journalize the following transactions :—

1864.

Jan.	10.	Bought of Andrew Crombie— 4 pipes port, at £50 .. ..	£200	0	0
"	11.	Sold James O'Brien— 1 pipe port, at £60 .. ..	60	0	0
"	12.	Sold William Smythe— 2 pipes port, at £58 .. ..	116	0	0

6. Rule a form for a ledger account "Wine," including a column for quantities, and post into it from the journal, entries made in answer to the last question.
7. It is not now the practice to keep in the ledger an account of the quantities of goods, though it is, of course, necessary that such an account should be kept somewhere. Describe with precision some substitute.
8. Describe the processes of "closing" and "balancing" a ledger.
9. How, in the system of farm accounts with which you are acquainted, is the amount of labour expended on a farm recorded?
10. Apply the plan you describe, in answer to the last question, to the following transactions:—

Paid boy for frightening crows off corn in field No. 1 .. .. .	£0 1 6
Paid men for mowing grass in field No. 4 ..	5 2 6
Ryan (a labourer hired by the year) worked at grass mowing in field No. 4 for half a day, and was occupied for the rest of the day in fetching guano from the nearest market town.	

If you can suggest any other way of recording the expenditure of labour, better suited to such transactions as these, do so.



THE INSTITUTE OF CHARTERED  
ACCOUNTANTS.

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*Questions set for the Final Examination in July, 1882.*

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1.—What should be the chief aim and object of a Book-keeper?

2.—What is the difference between Book-keeping by Single and Double Entry? and what the advantage of the latter over the former?

3.—How many classes of Accounts are there, and what do they respectively represent?

4.—What do the present Assets, minus the Debts and plus the drawings, of a partnership equal?

5.—Name the principal Books necessary to be kept in a Merchant's Counting House; and describe particularly their respective uses.

6.—On which side of the following Accounts must the Balance, if any, always be, and why?

Cash, Bills Payable, Bills Receivable, Property

7.—State the object of a Profit and Loss Account; the nature of the items of which it is composed, and on which sides such items are recorded. Also how the final balance of this Account is disposed of.

8.—Give an example of a Mercantile Balance Sheet and Profit and Loss Account.

9.—Give an example of a Balance Sheet prepared by Single entry.

10.—Work out the following entries by raising the necessary Accounts, and preparing therefrom Balance Sheet and Profit and Loss Account, showing present Assets and Liabilities, Gains, Losses, and Net Capital :—

Assets at commencement	..	..	..	£75,000	0	0	
Liabilities	"	..	..	..	25,000	0	0
Purchases during Trading	..	..	..	..	30,000	0	0
Sales	"	..	..	..	32,000	0	0
Ship "Constance," cost	..	..	..	..	16,450	0	0
" " earns	..	..	..	..	8,000	0	0
" " present value	..	..	..	..	15,000	0	0
Adv. to Nova Scotia, cost and charge	..	..	..	..	6,300	0	0
Cash Receipts	..	..	..	..	50,000	0	0
Cash Payments	..	..	..	..	21,000	0	0
Bills Received from Correspondents not yet matured	..	..	..	..	17,200	0	0
Bills Discounted	..	..	..	..	10,400	0	0
Bills Payable accepted	..	..	..	..	31,526	0	0
Bills Retired	..	..	..	..	19,513	0	0
Jones & Co.	Debits	£17,500	Credits	21,000	0	0	
Wilkins	"	3,000	"	2,000	0	0	
J. Rogers	"	6,000	"	4,000	0	0	
Jackson & Co.	"	8,500	"	2,400	0	0	
Paxton & Co.				950	0	0	
Price & Co.	"	8,100					
Wainwright & Co.	..	..	..	..	300	0	0
Commission earned	..	..	..	..	637	0	0
Charges, Rent, Salaries, &c.	..	..	..	..	1,650	0	0
Liability on Bills accepted on account and for the accommodation of John Smith & Co., of Belfast	..	..	..	..	800	0	0
of which it is expected we shall have to retire	..	..	..	..	00	0	0

*Questions set for the Final Examination in January, 1883.*

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1.—Why is Book-keeping by Double Entry so called ?

2.—What are the Personal and Impersonal (or Nominal) Accounts ?

3.—What Books are required in a Joint-Stock Company under the Companies' Acts which are not required in an ordinary Trading Partnership ?

4.—What would you do with the Invoices of Purchases when received, and how would you deal with them for the purposes of Double Entry ?

5.—Rule two forms of Cash Account (Cash Book) with which you may have met. Explain their working. State your preference, and your reasons for such preference.

6.—Jones, Brown and Robinson, iron manufacturers, commenced the year with the following position of affairs : Jones had £4,385 2s. 11d. in the business ; Brown, £2,763 5s. 8d. ; and Robinson, £723 2s. 1d. The land and buildings were valued at £3,234 11s. 7d, the fixed plant at £4,287 9s. 3d., and the tools, stock, and materials at £2,118 2s. 2d. A.B.C. owed them £1,428 3s. 8d., while they owed X.Y.Z. £3,671 5s. 4d., and were debtors to their bankers in the sum of £460 8s. 4d. They had a reserve fund for contingencies of £723 2s. 6d., a depreciation fund of £460 9s. 8d., and a provision for doubtful debts of £263 2s. 9d., their bills payable were £1,584 3s. 1d., and bills receivable, not under discount, £3,932 11s. 3d.; while the cash balance in hand amounted to £33 4s. 5d. Arrange this statement in the form of a Balance Sheet, upon the basis of the Firm being in account with the Business.

7.—Pass through Cash Book, Day Book, and Journal to Ledger, the following transactions of J., B. & R. :—

1882. Jan. 2. Sold Bright & Co. 40 tons, 18 cwt. 3 qrs. 27 lbs. of bars, at £6 3s. 4d. per ton delivered.  
Paid carriage upon the same at 5s. 2d. per ton.
- " " 3. Received cheques— Smith, £50 on account; Hirst, £43 17s. 6d., in settlement of account, after deducting a cash discount of  $2\frac{1}{2}$  per cent. from the account; and £20 from White.  
Paid said cheques into bank.
- " " 4. Received from Baker 50 tons of pig iron at 45s. per ton delivered. Sent him a three months' bill for same, less three per cent. discount. Received four months' acceptance from Brown of £158 9s. 3d. "
- " " 5. Received £120 from bankers, and paid wages £76, and salaries £14.
- " " 6. Received from bank returned acceptance of Littlewood, £63 1s. 4d., with charges £1 3s. 2d.

8.—Which of the foregoing transactions need not to have been passed through the Journal? What is its use?

9.—J., B. & R. trade during the first six months of 1882, and take stock and balance on June 30th, when they find they have, upon valuation, £3,541 8s. 9d. of stock and materials, and the following ledger balances :—

	<i>Dr.</i>	<i>Cr.</i>
Brown .. .. .		4,028 8 10
Purchases .. .. .	11,273 1 8	
Cash .. .. .	53 2 11	
Jones .. .. .		2,419 1 11
Bankers.. .. .		580 7 11
Stock and Materials .. .. .	2,118 2 2	
Robinson .. .. .		611 8 2
Repairs .. .. .	230 1 9	

			<i>Dr.</i>		<i>Cr.</i>
A.B.C. (Debtors)	..	..	1,267	2 6	
Carriage	..	..	927	4 8	
Reserve	..	..			723 2 6
Wages	..	..	5,622	1 10	
Depreciation	..	..			781 0 2
X.Y.Z. (Creditors)	..	..			1,825 1 11
Salaries	..	..	281	2 5	
Bills Receivable	..	..	1,718	0 4	
Land and Buildings	..	..	3,363	9 8	
Discounts	..	..	176	4 3	
Sales	..	..			18,632 2 3
Travelling Expenses	..	..	52	1 8	
Fixed Plant	..	..	4,350	0 0	
Rates and Taxes	..	..	142	6 1	
Provision for B. and D. Debts					125 6 8
Bills Payable	..	..			2,382 6 7
Interest on Capital	..	..	422	9 10	
Commission	..	..	63	4 2	
Bad and Doubtful Debts	..	..	48	11 5	
			<u>£32,108</u>	<u>6 11</u>	<u>£32,108 6 11</u>

Prepare from these facts a Trade Account and a Profit and Loss Account.

10.—After dividing the profit, arrived at in the last question, in the proportion of Jones  $\frac{1}{2}$ ths, Brown  $\frac{1}{3}$ th, and Robinson  $\frac{1}{6}$ th, and crediting their several Capital Accounts, present a Balance Sheet as on June 30th, 1882.

SUPPLEMENTARY INFORMATION CONCERNING BILLS OF  
EXCHANGE AND PROMISSORY NOTES.

(Continued from Page 137.)

**Discounting** a bill or note is buying it from the holder before it becomes due ; or, in other words, paying for it the amount of its contents less *discount*, or interest on such purchase money (either at the current bank rate of discount, or at such other rate as may be agreed upon between the parties) for the unexpired portion of the period for which the bill was drawn ; but, as already stated, it depends upon the supposed position of the parties to bills, whether these can be discounted or not, and the rate at which, if at all, this can be done.

**Honoring** a bill or note, is *meeting* it, or paying it on its becoming due ; and **retiring** it, is withdrawing it, or paying it *before* it becomes due.

If the acceptor be dead, the bill must be presented to his executors, or at his house.

A banker's cheque is an inland bill of exchange ; and, when made payable to bearer on demand, requires no acceptance, and is negotiable without endorsement.

A banker's cheque, like a bill, should be presented for payment within a reasonable time, which generally includes the day after it is issued ; for if there were then

assets in the bank, and the bank were to fail, since the drawer of the cheque would be prejudiced by such delay he would be discharged, and the person holding the cheque would have to suffer the loss.

If the cheque be made payable "to order," it will then require endorsement by the person to whose order it is made payable.

A crossed cheque is one which has the name of a banker written across it, or else a blank left for a banker's name, and the words "and Co." written after such blank, between two tranverse lines. Either the drawer, or any subsequent holder, may so cross any cheque; and either with or without a banker's name.

Crossing a cheque has the effect of an endorsement. The crossing is an order to the banker to whom the cheque is addressed not to pay the contents except to or through the banker whose name is written across it. When a blank is left, the practice is to regard such crossing as an order or request not to pay the contents except through another banker than the one to whom it is addressed, and to act accordingly (unless the payee has an account at the same bank). Therefore crossing cheques operates to prevent wrongful holders obtaining the contents.

It seems that the safest mode of sending cheques by post is as crossed cheques payable to bearer; as, if

made payable to order, then, by 16 and 17 Vict., c. 59, it is the one who issues the cheque, and not the bankers, who would have to bear the loss in case of forgery of endorsement. (See *Liverpool Mercury*, June 8th, 1874.)

When a bill or note is made payable at a fixed date, interest for the intervening period is usually included in the amount of its contents. Therefore, if the bill or note be silent as to interest, this is counted from maturity. But if interest is expressed on the face of the bill as being payable, it is counted from the date of drawing or making; and this is so with a bill or note payable on demand.

If the document be silent as to the *rate* of interest, five per cent. is usually allowed. Formerly a higher rate was illegal; but, since the abolition of the usury laws, any rate of interest which is expressed in a bill or note is recoverable.



LIVERPOOL:  
D. MARPLES & CO. LIMITED,  
LORD STREET.

